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Reed International Limited Annual Report 31 March 1979

NOT FOR PUBLICATION

before 00.30 hours (B.S.T.) Tuesday, 26th June, 1979

Corporate Publicity Department, Reed House, 82 Piccadilly, London W1A 1EJ. 01-839 8250



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To the Ordinary Shareholders
(and, for information only, to the Preference Shareholders).

Dear Sir or Madam,

The Report and Accounts of the Company for the year ended 31st March 1979 ("the Accounts") are enclosed. This letter includes additional particulars of material changes in the Company's assets during the year ended 31st March 1979 and subsequently. Your attention is drawn to the paragraph headed "Restructuring of the Group" on page 12 of the Directors' Report and to Note 1 to the Accounts headed "Major Divestments and Acquisitions" on page 35.

I. Borrowings

The Accounts and the Notes thereto incorporate the outstanding borrowings and the liabilities under guarantees and otherwise of the Company and its subsidiaries at the dates on which their respective balance sheets were drawn up. Save as disclosed in the Accounts neither the Company nor any of its subsidiaries had outstanding at the relevant balance sheet dates any borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, material hire purchase commitments, guarantees or other material contingent liabilities.

II. Material Contracts

Since 1st April 1978 the Company and its subsidiaries (collectively described as "Reed") have entered into the following contracts, other than in the ordinary course of business, which are or may be material:—

- (a) Agreement dated 27th April 1978 between the Company and C G Smith and Company Limited ("Smith") for the acquisition by Reed for one Rand of the whole of Smith's 50% interest in the share and loan capital of Stanger Pulp and Paper (Pty) Limited ("Stanger"), on terms that Smith would pay into Stanger Rand 16,843,000 (approximately £9,700,000) and that Reed would have sole responsibility for certain guarantees in respect of finance for Stanger.

Note 22 on page 44 of the Accounts refers to Reed's contingent liability under these arrangements amounting to £14,800,000 at 31st March 1979.

- (b) Agreement dated 26th July 1978 between the Company and Barlow Rand Limited ("Barlow Rand") for the acquisition by Barlow Rand of the whole of Reed's 63% interest in the share capital of Reed Nampak Limited for a total consideration of Rand 64,588,343 (approximately £36,900,000), partially satisfied as to US \$18,670,524 (approximately £10,000,000) by the assumption by

— Barlow Rand of all liability in respect of a borrowing by the Company of that US dollar amount from International Westminster Bank Limited.

- (c) Agreement dated 6th October 1978 with Deutsche Genossenschaftsbank ("DG Bank") under which the Company acquired a promissory note for D Marks 54,000,000 (approximately £13,900,000) from DG Bank with identical maturity terms to loans totalling D Marks 54,000,000 from DG Bank to the Company.
 - (d) Agreement dated 13th October 1978 between Reed & Associates Pty Limited, the Company and James Hardie Asbestos Limited ("Hardie") for the acquisition by Hardie of the whole of Reed's 81% interest in Reed Consolidated Industries Limited for a total consideration of A\$52,110,800 (approximately £31,000,000).
 - (e) Agreement dated 13th October 1978 between RPL Limited and Reed Group Holdings Pty Limited ("Reed Holdings") for the acquisition by Reed Holdings for A\$8,677,000 (approximately £5,100,000) of the Butterworth companies operating in Australia and New Zealand.
 - (f) Letter dated 13th October 1978 from Credit Suisse concerning early repayment at 102½ per cent. of the Swiss Francs 80 million 6% loan 1973/88 on 20th July 1979.
 - (g) Agreement dated 30th November 1978 between Reed Paper Ltd., Reed Ltd., CFP Investments Ltd. ("CFP Investments") and Canadian Forest Products Ltd. for the acquisition by CFP Investments of the whole of Reed's interests in Prince George Pulp and Paper Limited, Intercontinental Pulp Company Ltd and Takla Forest Products Limited for a total consideration of Can. \$60,000,000 (approximately £26,300,000).
 - (h) Agreement dated 31st January 1979 between Domtar Inc. ("Domtar") and Reed Ltd., Papeterie Reed Limitée and Reed Forest Products Inc. for the acquisition by Domtar of fixed assets, inventories and other business assets related to the production of linerboard and corrugated containers and to the collection and recycling of paper waste for a purchase price of approximately Can. \$27,000,000 (approximately £13,000,000).
 - (i) Agreement dated 23rd May 1979 between the Company, TKM International Holdings Limited ("TKM") and Tozer Kemsley & Millbourn (Holdings) Limited for the acquisition by TKM of Reed's interest in the share capital and certain loan capital of Reed International Trading Limited ("RITL") for £1,225,000. Under the agreement loans of D Florins 11,500,000 (approximately £2,700,000) owed by RITL to Reed are to be repaid in three equal annual instalments commencing on 31st March 1980.
 - (j) Agreement dated 1st June 1979 between Reed Finance (Pty) Limited ("Reed Finance") and Sappi Limited ("Sappi") for the acquisition by Sappi for Rand 3,500,000 (approximately £2,000,000) of the whole of Reed Finance's interest in the ordinary share capital and loan capital of Stanger Pulp and Paper (Pty) Limited ("Stanger") and for the release of Reed from all responsibility for the indebtedness of Stanger. Prior to completion Reed Finance will convert Rand 9,000,000 (approximately £5,200,000) of its loans to Stanger into an equivalent nominal amount of 6% Cumulative Redeemable Preference Shares of Stanger which are redeemable over the period 1980 to 1984.
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- (k) Agreement dated 10th May 1978 between Spicers Far East Limited ("Spicers") and Mr C L Tse and Mr S S Chiu under which Spicers sold the share capital of China Translation and Printing Services Limited ("CTPS") to Mr Tse and Mr Chiu for a consideration of Hong Kong \$3,800,000 (approximately £450,000). At the time of the sale the purchasers were both Directors of CTPS.

- (l) Agreement dated 28th November 1978 between Reed Building Products (Pty) Limited and Mr G Armstrong under which Mr Armstrong acquired Reed's interest in Grotz & Foster (Pty) Limited for Rand 200,000 (approximately £119,000) of which Rand 50,000 was payable in cash on completion and the balance in ten equal six-monthly instalments commencing on 31st March 1979. Mr Armstrong is a former Director of Reed Finance (Pty) Limited.
- (m) Agreement made on 2nd February 1979 between Reed Lumber Company Ltd. ("RLC"), Alpa Lumber Inc. ("Alpa") and Reed Paper Ltd., for the acquisition by Alpa of the undertaking, property and assets of the lumber businesses carried on by RLC for an aggregate purchase price which (after the assumption by Alpa of debts and liabilities of RLC incurred in connection with the said businesses) amounted to Can. \$20,000,000 (approximately £8,300,000) of which Can. \$10,000,000 was paid in cash on completion on 12th March 1979 and the balance by a Can. \$10,000,000 8¾% debenture repayable in five equal instalments on 31st March in each of the years 1980 to 1984. The shareholders of Alpa include employees and former employees of Reed. Mr D A MacIver, a Director and President of Reed Paper Ltd, has a 10% interest in Alpa.
- (n) Agreement dated 2nd May 1979 between Arthur Sanderson & Sons Limited ("Sanderson") and Mrs I Carlbom under which Mrs Carlbom acquired the share capital of Ericsson & Kohlers NYA AB for one Swedish Krona after Sanderson had paid off Swedish Kroner 150,000 (approximately £17,000) of that company's borrowings. Mrs Carlbom is a Director and General Manager of Ericsson & Kohlers NYA AB.

III. General

- (a) Since 31st March 1979, and save as disclosed herein and excluding transactions involving amounts which are not material to the Company:—
 - (i) except for inter-company transactions, no share or loan capital of the Company or any of its subsidiaries has been issued for cash or for a consideration other than cash, nor is any such capital proposed to be issued;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries or are proposed to be granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and
 - (iii) other than in the normal course of business, there has been no material change in the financial or trading position of the Company and its subsidiaries.
- (b) Save as disclosed in the Accounts and excluding transactions involving amounts which are not material to the Company and its subsidiaries, no share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- (c) Proceedings have very recently been commenced against two U.S. subsidiaries naming them as defendants in claims for damages incurred in connection with the death and injury of persons as a result of a fire at premises in the State of ~~Kentucky~~ where goods alleged to have been supplied by such subsidiaries may have been installed. It is believed that proceedings arising out of the same events have been issued against some 1,100 other defendants and that the total amounts claimed against all such defendants collectively is in excess of U.S.\$2,000,000,000.

It is impossible at this stage to judge whether or not such subsidiaries are in any way liable or to quantify the potential amount of any such liability. Lawyers have been instructed by the subsidiaries concerned to defend such actions strenuously.

Save as aforesaid and as disclosed in Note 22 on page 44 of the Accounts there is, so far as the Directors of the Company are aware, no material litigation outstanding against the Company or its subsidiaries nor are there any claims of material importance pending or threatened against the Company or its subsidiaries.

- (d) No Director of the Company has any interest, direct or indirect, in any assets which after 1st April 1978 have been or are proposed to be acquired, disposed of by or leased to the Company or any of its subsidiaries and no Director of the Company has a material interest in any contracts or agreements entered into by the Company or any of its subsidiaries which is significant in relation to the business of the Company and its subsidiaries taken as a whole except under the share option scheme as disclosed on pages 40 and 45 of the Accounts.

IV. Documents Available for Inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Allen & Overy, 9 Cheapside, London EC2V 6AD, up to and including 2nd August 1979:—

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited published Accounts of the Company for the two financial years ended 31st March 1979;
- (c) the material contracts referred to in paragraph II above.

By Order of the Board,

G G Stocks,

Secretary.

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Reed International Limited

Annual Report 31 March 1979

Directors

A A JARRATT CB BComm
Chairman and Chief Executive

G S G WITHERINGTON MA
Deputy Chairman

L A CARPENTER
Chief Executive International Publishing Corporation Limited

M K COLLINS BSc MICE
Chief Executive Reed Building Products Limited

J D CORMIE MA FCA
Finance Director

M C THOMAS
Chief Executive The Wall Paper Manufacturers Limited

D T WILKINS
Chief Executive Reed Group Limited

Non-Executive

E S BIRK BA
Senior Partner Nicholson, Graham & Jones, Solicitors

J H HARVEY-JONES MBE
A Deputy Chairman Imperial Chemical Industries Limited

J H MACDONALD CA
Group Treasurer The Royal Dutch/Shell Group of Companies

Secretary
G G Stocks CA
Registered Office
Reed House 82 Piccadilly London W1A 1EJ

Registrars
Tudor Registrars Limited
Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

Auditors
Price Waterhouse & Co.
Southwark Towers 32 London Bridge Street London SE1 9SY

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Financial Calendar

Financial year end	31 March 1979
Preliminary results for the year issued	30 May 1979
Annual Report for the year issued	25 June 1979
Annual General Meeting	2 August 1979
First quarter's results issued	Early August 1979
Second quarter's results issued	End October 1979
Third quarter's results issued	Early February 1980
Dividends payable:	
Ordinary shares—Interim	9 January 1979
—Final	14 August 1979
Preference shares (cumulative)	
4½% (now 3·15% plus tax credit)	1 June and 1 December
5½% (now 3·85% plus tax credit)	1 June and 1 December
5% (now 3·50% plus tax credit)	8 June and 8 December
7% (now 4·90% plus tax credit)	8 June and 8 December

Notice of Meeting

Notice is hereby given that the Seventy-sixth Annual General Meeting of Reed International Limited will be held at The Institution of Electrical Engineers, Savoy Place, London WC2R 0BL on Thursday 2 August 1979 at 12 noon for the following purposes:

1. To consider the Company's Accounts for the year ended 31 March 1979 and the Reports of the Directors and Auditors thereon.
2. To declare a final dividend on the Ordinary Shares.
3. To re-elect as Directors:
 - (a) J D Cormie
 - (b) J H Macdonald
 - (c) G S G Witherington
4. (a) To re-appoint Price Waterhouse & Co. as Auditors of the Company.
(b) To authorise the Directors to fix the remuneration of the Auditors.

A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member.

By Order of the Board
G G Stocks, *Secretary*
Reed House
82 Piccadilly London W1A 1EJ
25 June 1979

Notes

1. Only holders of Ordinary Shares are entitled to attend or be represented at the Meeting.
2. The instrument appointing a proxy must reach the Company's Registrars, Tudor Registrars Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4UP, not less than forty-eight hours before the time for holding the Meeting.
3. A Form of Proxy is enclosed for holders of Ordinary Shares.
4. No Director of the Company has a contract of service with the Company or with any of its subsidiaries which is not determinable within one year without payment of compensation.

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Results in Brief

£ million

	1979		1978	
	CCA	Historic	CCA	Historic
Trading profit	58	107	60	106
Profit before taxation	49	83	52	81
Profit attributable to shareholders	10	43	1	28
Total funds employed at year-end	914	766	994	847
Earnings per ordinary share	9p	38.0p	1p	24.8p
Net dividend per ordinary share	8.0p	8.0p	8.0p	8.0p
Net assets per ordinary share	517p	385p	492p	373p
Dividend cover	1.1	4.7	0.1	3.1

1978 Restated to reflect the change in basis for providing for deferred taxation

Statement of Value Added

£ million

	1979	1978
Sales	1,611	1,623
Investment income	9	6
Share of profits of associated companies	6	10
	<u>1,626</u>	<u>1,639</u>
Cost of materials and services bought, etc.	1,036	1,086
Value added	<u>590</u>	<u>553</u>
Disposal of Value Added		
To employees (wages, salaries and pension fund contributions)	446	437
To governments (taxation)	36	45
To providers of capital		
loan stockholders, banks, etc. (interest)	38	42
outside shareholders in subsidiaries	4	8
shareholders (dividends)	9	9
	<u>51</u>	<u>59</u>
Reinvested in the business		
depreciation set aside	33	34
profit (loss) retained	24	(22)
	<u>57</u>	<u>12</u>
	<u>590</u>	<u>553</u>

1978 Restated to reflect the change in basis for providing for deferred taxation

Analysis of Sales and Trading Profit

£ million

	1979 Sales	Trading profit	%	1978 Sales	Trading profit	%
Pulp, Paper and Packaging						
United Kingdom	465	31.5	6.8	435	32.4	7.4
Europe	107	2.2	2.1	101	4.6	4.5
North America	202	11.4	5.6	251	—	—
Africa	77	8.9	11.6	119	16.1	13.5
Australasia	45	2.2	4.9	64	3.6	5.6
Total	896	56.2	6.3	970	56.7	5.8
Decorative Products						
United Kingdom	176	3.4	1.9	185	7.1	3.8
Europe	28	1.7	6.1	28	1.9	6.8
North America	48	(1.5)	(3.1)	58	(7.0)	(12.1)
Australasia	15	0.1	0.7	20	0.4	2.0
Total	267	3.7	1.4	291	2.4	0.8
Building Products						
United Kingdom	59	4.6	7.8	47	2.4	5.1
Europe	46	(0.1)	(0.2)	42	2.6	6.2
Africa	6	0.4	6.7	13	0.3	2.3
Australasia	27	1.2	4.4	42	3.2	7.6
Total	138	6.1	4.4	144	8.5	5.9
Publishing						
United Kingdom	270	24.1	8.9	238	23.8	10.0
North America	50	4.4	8.8	48	4.4	9.2
Australasia	21	2.3	11.0	25	1.8	7.2
Total	341	30.8	9.0	311	30.0	9.6
Newspapers						
United Kingdom	165	10.0	6.1	146	9.0	6.2
Summary						
United Kingdom	1,135	73.6	6.5	1,051	74.7	7.1
Europe	181	3.8	2.1	171	9.1	5.3
North America	300	14.3	4.8	357	(2.6)	(0.7)
Africa	83	9.3	11.2	132	16.4	12.4
Australasia	108	5.8	5.4	151	9.0	5.9
Total	1,807	106.8	5.9	1,862	106.6	5.7
Less inter-company sales	196			239		
Total, excluding inter-company sales	1,611	106.8	6.6	1,623	106.6	6.6

Statistics for Ten Years

£ million

Year ended 31 March	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
Sales										
Excluding inter-company sales	1,611	1,623	1,488	1,064	969	734	598	534	502	314
Profits										
Trading profit – Historic	107	106	96	50	88	69	48	39	32	27
– CCA	58	60	38							
Associated companies	6	10	14	11	14	10	6	4	2	
Interest	29	35	35	24	17	13	11	13	14	8*
Profit before taxation – Historic	83	81	75	37	85	66	43	30	20	19
– CCA	49	52	40							
Profit after taxation	47	36	34	15	45	35	25	17	11	11
Outside shareholders' interests	4	8	7	2	4	2	1	1	1	1
Profit after taxation and extraordinary items	33	(14)	20	11	38	34	24	16	10	10
Dividends	9†	9†	15†	10†	9†	9†	8†	11	11	6**
Capital Employed										
Ordinary shareholders' funds	430	416	408	355	351	331	298	251	239	162
Preference shares	4	4	4	4	4	4	4	4	4	4
Outside shareholders' interests	21	50	62	50	26	21	17	16	17	11
Loan capital	311	377	399	300	221	191	169	138	142	96
Deferred taxation			43	28	25	11	5	6	2	8
Total funds employed – Historic	766	847	916	737	627	558	493	415	404	281
– CCA	914	994	1,048							
Capital Utilisation										
Fixed assets	274	317	340	260	205	183	164	170	171	131
Investments	28	59	99	100	90	84	73	38	37	16
Goodwill	153	173	185	170	159	135	132	126	122	68
Net working capital	226	305	327	261	209	149	109	112	128	103
Net short term borrowings	85	(7)	(35)	(54)	(36)	7	15	(31)	(54)	(37)
Total	766	847	916	737	627	558	493	415	404	281

Thousands

Number of shareholders	65	73	76	79	84	87	89	95	104	53
Number of employees	68	83	86	87	83	82	80	80	84	56

Pence

†† Earnings per ordinary share	38.0	24.8	25.8	14.0	44.4	35.3	25.9	17.8	11.0	17.7
†† Dividends per ordinary share with tax credit	11.9	12.1	20.0	16.7	15.2	13.5	12.8	12.2	12.2	12.2

* Dividends and interest from associated companies deducted.

† Cost excluding advance corporation tax.

** After part cancellation of share capital.

†† Figures adjusted to reflect 1976/77 rights issue.

1979 and 1978 figures based on new accounting policy for deferred taxation. Prior years have not been restated.

Analyses of Ordinary Shareholders

	Holders		Shares held (000's)		%	
	1979	1978	1979	1978	1979	1978
Analysis of Ordinary Shareholders						
Individuals	61,386	68,704	34,687	36,149	31·0	32·4
Nominee companies	907	1,116	35,216	31,927	31·5	28·6
Insurance companies and banks	329	366	21,537	21,409	19·3	19·1
Pension funds	153	205	9,424	9,701	8·4	8·7
Investment and unit trusts	216	263	5,545	6,072	5·0	5·4
Charities, local authorities, colleges, etc.	239	315	3,813	4,846	3·4	4·3
Commercial and industrial companies	327	446	1,524	1,642	1·4	1·5
	<u>63,557</u>	<u>71,415</u>	<u>111,746</u>	<u>111,746</u>	<u>100·0</u>	<u>100·0</u>

	Holders	Shares held (000's)	%
Analysis of Ordinary Shareholdings			
1-100	14,037	757	0·7
101-250	18,370	3,212	2·9
251-500	15,320	5,641	5·0
501-1,000	9,720	6,999	6·3
1,001-5,000	5,157	9,298	8·3
5,001-10,000	321	2,384	2·1
10,001-25,000	217	3,728	3·3
25,001-50,000	131	5,038	4·5
50,001-250,000	202	22,866	20·5
250,001-1,000,000	70	32,106	28·7
Over 1,000,000	12	19,717	17·7
	<u>63,557</u>	<u>111,746</u>	<u>100·0</u>

Income and Corporation Taxes Act 1970

The close company provisions of this Act do not apply to the Company. For the purposes of capital gains tax the market values of the Company's stocks and shares at 6 April 1965 were:

Ordinary Shares	257·5p
4½% Cumulative Redeemable Preference Shares	63·75p
5½% Cumulative Redeemable Preference Shares	78·75p
4½% Debenture Stock 1979/84	80
6% Debenture Stock 1979/84	91
6¾% Debenture Stock 1987/92	100

Statement by the Chairman

During the last year Reed International has made major advances towards the objectives I laid down at the last Annual General Meeting. Briefly, these were and still are:—

- to withdraw from activities that are no longer relevant to the mainstream of our business and to use the resources so realised to the benefit of the Company elsewhere;
- to withdraw from activities the costs and risks of which are potentially greater than their future financial contribution to the Company;
- to concentrate on those activities which now and in the future can produce high and sustainable profitability;
- to ensure that we have the managerial and financial resources and flexibility to support and expand these activities;
- to reduce our debt, our gearing and our currency exposure;
- to optimise the earnings and the cash that are available for use by the Company for new and profitable investment and for paying a proper return to the shareholders.

I would like, in this Statement, to review our achievements against the objectives we have set ourselves.

We have carried through a major programme of divestments. In Canada, we sold our interests in the British Columbian joint-venture companies, the Mississauga board mill, and corrugated case, lumber and certain other smaller businesses owned by our subsidiary, Reed Paper. In South Africa, we sold our interest in the packaging company, Reed Nampak, and our wholly-owned building products businesses. In Australia, we sold our majority shareholding in Reed Consolidated Industries though we retained our book publishing interests in Butterworth, both there and in New Zealand. We also divested our interests in several smaller companies in Europe.

In each case, the criteria for divestment were those I have described above. The reasons were well understood by the personnel of the companies concerned. In consequence the changes of ownership have gone smoothly and we still retain strong links personally and, where appropriate, technically with our ex-colleagues. We wish them every good fortune with their new owners.

Our Canadian subsidiary Reed Paper is continuing the remarkable recovery achieved during the year thanks to skilful management and greatly improved markets for pulp and newsprint. During the year we engaged in abortive negotiations for the sale of our interests in Reed Paper. The improvement in Reed Paper's profitability together with its present strong financial position have reinforced our determination only to sell this investment on terms which fairly reflect its value.

Although divestments have attracted the most publicity during the year, we have also been taking action on the weak spots in our mainstream businesses. The Imperial Paper Mill, which has been operating at a loss on some of its products because of overseas competition, is now being reorganised with the aim of producing only waste-based newsprint on a single machine. We have been making further reductions in our wallpaper making capacity and its associated overheads in order to compete more effectively in this contracting market. The closure of our wall-tile manufacturing operations in Belgium and the modernisation of our similar facilities in Holland have been completed and followed by successive launches of entirely new product lines. We have closed loss-making operations in pitch-fibre manufacturing and paper merchanting in the UK and packaging in Belgium. A large part of the costs of these actions has

been charged directly against, and has thus diminished, the year's trading profit; the savings will accrue in future years.

Trading conditions for our businesses were mixed with little volume growth overall. The world pulp and paper market continued to suffer from over-capacity for the greater part of 1978, but there was a distinct improvement in prices in the latter part of the year which has continued into 1979. The UK mills performed most creditably and achieved a higher trading profit than originally expected despite the heavy costs of rationalising the Imperial Paper Mill. The substitution of recycled waste paper for imported pulp continues to be a major objective. It now constitutes over 70% of our total fibre use. The importance of this switch, in which we are well ahead of the rest of the UK paper industry, is still not sufficiently appreciated. The cost of imported pulp to the UK balance of payments last year was nearly £300 million; this alone underlines the very real need for greater co-operation between producers and users, local and national government to ensure a continuous and growing flow of waste paper.

Our packaging businesses are amongst the largest in the country and the most successful in the Company. This strength is based upon a deep understanding of their many markets and the very high quality of design and service they offer. These businesses are currently being reinforced by a major programme of plant modernisation and by accelerated product innovation. Both are of vital importance in ensuring that our businesses retain and strengthen their leadership in what are now mature and highly competitive markets.

Journal publishing had another excellent year especially in terms of circulations and the number of new titles successfully launched. Advertising performance

finished the year strongly after a somewhat tentative start in some areas; the total volume of space booked was up on the previous year and especially so in business magazines. The Company's legal, medical and technical publisher, Butterworths, has continued the remarkable improvement it has shown in recent years, particularly overseas, and is an activity to which we look for further growth in the future.

Newspapers fared less well, partly because of competition from the Daily Star which invaded the existing popular daily market rather than creating a new one, and partly because of difficulties in introducing the new processes for electronic composition, facsimile transmission and, particularly, automatic page make-up. This is perhaps the penalty of being the first national newspaper group to install and work the new technology; but we are now much further along the learning curve than our rivals.

Building products presented a mixed picture. At home our policy of up-trading in design and quality combined with an upsurge in house renovation brought a welcome improvement in our UK bathroom business. In Holland profitability was severely affected, both by the disruption of reorganising our wall-tile manufacturing facilities and by the extreme competitiveness of European markets for sanitaryware generally. Deep-sea exports, which have been particularly important in recent years for Twyford and Key Terrain, dropped sharply in the second half of the year, largely due to the closure of the Nigerian and Iranian markets. Nevertheless, this is now one of the best equipped parts of the Company with the ability to supply a wide range of products in a growing area of discretionary spending.

Crown paint, Sanderson textiles, Polycell and Texales all produced good operating

Statement by the Chairman

results, an important part of which was derived from new products such as the latest Sanderson Triad range. The problem area continues to be wallcoverings and, in particular, our historically large capacity for making printed wallpapers, the demand for which is declining rapidly. We see no change in market trends that will solve this situation and have embarked on a rigorous programme of restructuring capacity and costs so as to bring both more closely into line with a smaller and highly competitive market.

Preoccupation with some of the Company's more publicised operations overseas has tended to distract attention from our growing interests in the USA. They comprise a well-known and successful publishing company, Cahners, which operates in the field of business journals and exhibitions; a "green-field" medical publishing company founded by Butterworths; a high technology photo-composition house, International Computaprint Corporation in Philadelphia which supplies the US government and private and public utilities; a speciality paper and packaging company, Reed Deeron; and Reed Decorative Products, which manufactures wallcoverings, has the largest distribution network in the USA, and is beginning to recover under new management from its troubles of recent years. As a whole, our US operations have a turnover of some \$200 million, and we look for further expansion in this major market in the future.

Returning now to Reed International's performance overall, trading profit of £107 million in 1978/79 was the same as in 1977/78. The loss of profit in the year from divested businesses in South Africa and Australia was effectively offset by the turnaround in Reed Paper in Canada. There was a reduction of £4 million in the

income from associated companies, but an even bigger drop of £7 million in our interest charge.

Your Company's pre-tax profit of £83 million was achieved after charging directly against trading profit £13 million for the costs of the restructuring that took place during the year, and despite the loss of profit caused by the road haulage strike much of which, for example in publishing, was irrecoverable. Given the uncertain state of a number of our markets and the effort that had to be devoted to major reconstruction, I regard the results achieved in the year as sound evidence of Reed International's progress towards its objective of high and sustainable profitability.

The credit for this must go to those who work in Reed and particularly the management. They have had to go through a very difficult period both within and without the Company, and they have done so with fortitude, loyalty and professionalism. Now, as I go round our many operations, I am impressed by a sense of confidence and determination to succeed which is in no way dulled by relatively unexciting growth prospects whether in the UK economy or overseas. They know what is expected of them, they are increasingly getting the investment necessary to back their efforts, and we at last are able to reward more effectively those on whose performance the Company's fortunes so critically depend.

We have maintained close control over the use of capital. One result is that the Company's working capital to sales ratio has been reduced for the third year running. We have been able, however, to authorise a higher level of capital expenditure in businesses that have been inadequately invested in the past, which have a major part to play in Reed International's future profitability, or

Statement by the Chairman

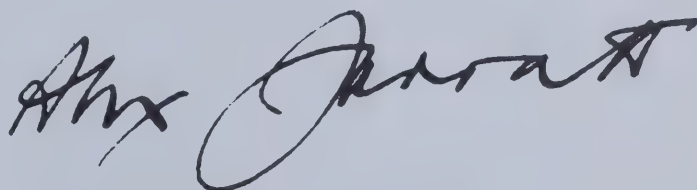
both. Major examples are the re-equipment of our packaging activities, a new programme of modernisation in our printing factories, and a continued and high rate of investment in the use of recycled waste paper. A further increase in profit-enhancing capital expenditure is planned for the current financial year; even so we will still be spending less than depreciation in current cost accounting terms. Creating the resource to do better than this must continue to be a prime objective.

Perhaps our most significant achievements this year have been the reductions we have made in debt, in gearing and in our currency exposure. We have also entered the new year with a strong reserve of cash and unused bank facilities. The ways in which this has been done are described fully in the Directors' Report. This amounts to a major improvement on the situation at the end of the previous financial year. But it is still important to the Company's future well-being for us to reduce our gearing to a level commensurate with that of other major

companies and to eliminate, by the most appropriate routes, the currency exposure caused by mis-matched assets and liabilities. We are confident that these objectives can be met.

The keys lie in successfully completing the process of restructuring; continuing to improve the Company's earnings base in current cost rather than historical accounting terms; and doing these things in what is becoming an increasingly uncertain world economic environment. We have made much progress in 1978/79 but your Board feel that shareholders' interests will best be served by maintaining the dividend.

We aim to use the next twelve months to consolidate further the Company's position in order to establish an even sounder base from which to pay increased dividends in the future.

A handwritten signature in black ink, appearing to read 'Alex Jarratt', with a stylized flourish at the end.

Alex Jarratt

Directors' Report

The Directors present their Annual Report, together with the Accounts of the Company, for the year ended 31 March 1979.

Principal Activities

Reed International Limited is a holding company, its principal investments being in the United Kingdom, North America and on the Continent of Europe.

The principal activities of its subsidiaries are:

- the manufacture of paper and board from pulp and waste paper, pulp production and waste paper recovery;
- the manufacture and marketing of a wide range of paper based packaging and stationery;
- the publishing and printing of newspapers, consumer and business magazines, books and business directories;
- the production and marketing of wallcoverings, paint, textiles, furnishing fabrics and carpets and DIY home improvement products;
- the manufacturing and marketing of ceramic sanitaryware and tiles, baths, taps, shower equipment and plastic pipes and fittings.

Financial Review

Restructuring of the Group

The year has been a period of consolidation and progress in the UK while significant changes have taken place in the overseas investments of the Company. As part of an overall strategy, aimed at restructuring the Company's operating base and reducing its high level of borrowings in relation to shareholders' funds, a number of divestments were effected during the year, the principal ones being:

- the sale, with effect from 30 September 1978, of the Company's 81% holding in the Australian public company Reed Consolidated Industries Ltd to James Hardie Asbestos Ltd for £31 million. As

- part of the sale agreement, the Company acquired from Reed Consolidated Industries for £5.1 million the Butterworth companies operating in Australia and New Zealand. These companies now report to the UK publishing division, International Publishing Corporation;
- the sale, with effect from 30 November 1978, by Reed Paper Ltd, the Company's principal Canadian subsidiary, of its interests in Prince George Pulp and Paper Ltd and Intercontinental Pulp Company Ltd to Canadian Forest Products Ltd for £26.3 million. Other significant disposals by Reed Paper were its corrugated case operations and the Mississauga linerboard mill for £13 million and its lumber business for £8.3 million;
- the sale, with effect from 1 July 1978, of the Company's 63% holding in the South African public company, Reed Nampak Ltd, to Barlow Rand Ltd for £36.9 million. Subsequently, the South African building products operations, including Twyfords SA and Pipekor, were disposed of for £1.7 million.

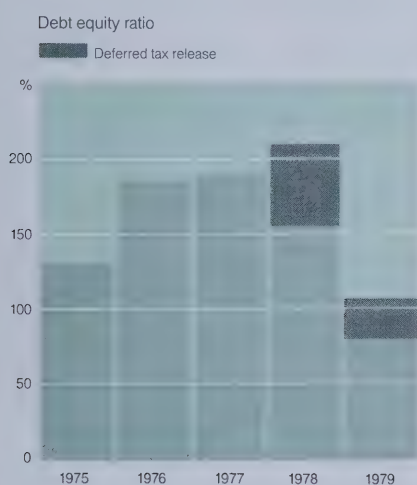
Further details of the divestments referred to above, including the sales and profits attributable to them, are shown in Note 1 to the Accounts on page 35.

In addition to the disposals referred to above, Reed Paper transferred to other Reed International subsidiaries its wallcovering, paint and fabrics businesses in Canada and the USA. These businesses now report to Wall Paper Manufacturers, the Company's UK decorative products division. The principal assets of Reed Paper now consist of the Quebec newsprint mill and the pulp and paper mill at Dryden, Ontario.

In the USA, all of the Company's investments are now held by a wholly owned subsidiary, Reed Holdings Inc, which provides greater financial strength and improved opportunities for funding. The operations include publishing (Butterworths and Cahners) and paper-making and packaging (Deerfield and Oneida), as well as the wallcoverings

operations in the USA referred to earlier.

The remaining South African interests which are held through Reed Finance (Pty) Ltd are stationery and merchanting operations and the Stanger pulp and paper mill which became a wholly owned subsidiary in April 1978 following the acquisition of the remaining 50% of the share capital from C. G. Smith & Co Ltd. Reference to this acquisition was made in last year's Annual Report and Accounts. During the year, the Company disposed of all its trading interests in Rhodesia.



The divestment programme carried out during the year has led to a substantial reduction both in the absolute level of debt and in the debt/equity ratio and to a reduction in the currency exposure caused by the mismatching of assets and liabilities. Details of the changes are given in the following section.

The debt/equity ratios fell from 211% to 108% before the deferred tax adjustment and from 156% to 80% after the release of the deferred tax provisions as a result of the change in Accounting Policy to comply with SSAP 15.

Share Capital and Loans

There was no change in the Company's share capital during the year.

Shareholders' funds increased from £355 million reported last year to £434 million. In addition to the surplus of £24 million transferred from the Profit and Loss Account, £65 million was released from the provision for Deferred Taxation.

Net exchange losses which amounted to £10 million compared with £30 million have been charged direct to reserves as in previous years. Of this £11 million related to net assets held overseas principally in Canada and to a £1 million gain on foreign currency loans.

Net debt fell during the year from £384 million to £226 million.

Loan capital was reduced from £377 million to £311 million.

The principal changes were:

funds were purchased in 1978 at a cost of £26 million to repay in July 1979 the 80 million Swiss Franc loan due in 1988. Losses, due to the depreciation of sterling against the Swiss Franc since the loan was raised in 1973, have amounted to £14 million;

following the sale of the investment in Reed Nampak a US\$18.7 million loan was transferred to the purchaser. In addition, part of the sale proceeds were used to invest in Deutschemark securities with maturities to match those of bank loans of DM54 million raised for the original investment in Reed Nampak in 1975;

following the acquisition of the remaining 50% interest in Stanger Pulp and Paper its long-term borrowings, amounting to the equivalent of £15 million at the year-end, have been consolidated;

the net proceeds from the sale of the investment in Reed Consolidated Industries amounting to £25.9 million were largely remitted to Europe after the year-end where they will be used to reduce currency mismatching.

By the end of the year net short term borrowings of £7 million had been replaced by cash holdings of £85 million, of which £58 million was held in overseas currencies.

The Statement of Source and Application of Funds is shown on page 34. Funds generated from operations were sufficient to meet all current operating and financing requirements. Proceeds from divestments are being used to reduce long-term debt and currency mismatching.

The Board considers that, taking account of available cash resources and short term investments and existing loan and bank overdraft facilities, the Company and its subsidiaries will have sufficient working capital for their present requirements.

Business Environment

Throughout most of the year the publishing and newspaper operations benefited from a buoyant advertising market and relatively stable paper prices in the UK. With the strength of sterling against both US and Canadian Dollars, the cost of newsprint declined.

These conditions by contrast made trading difficult in the pulp and paper industry. For three-quarters of 1978 world over-supply of pulp and paper kept prices depressed. Only in the last quarter of 1978 were signs of recovery apparent.

However, demand for packaging materials has continued to grow in the UK. In Holland, where the Company also has packaging interests, demand has been weak and prices have remained low as a result of active competition from Germany and Belgium.

Building products markets for ceramic sanitaryware began the year with substantial growth but fell away dramatically in the fourth quarter as a

result of the notable decline in exports from the UK to Nigeria and to the Middle East.

While market conditions for paint and DIY products were satisfactory, the declining trend in demand for wallcoverings in the UK and throughout Europe continued.

Consolidated Results

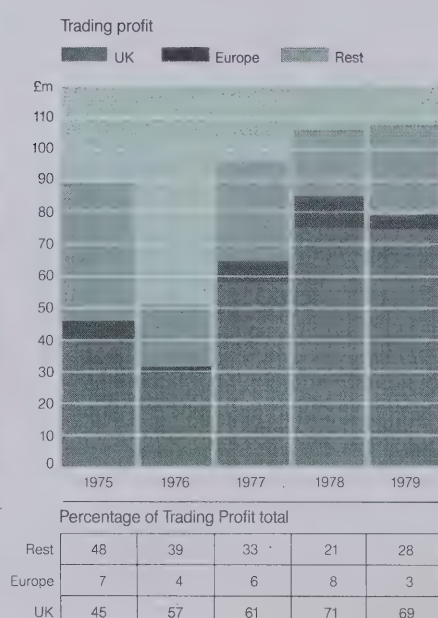
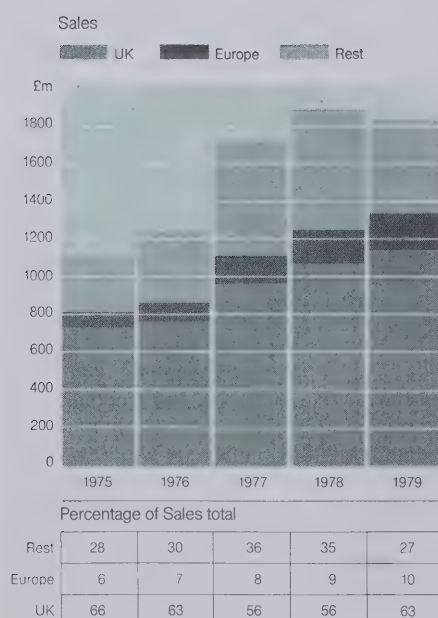
Total sales for the year were marginally below the record level achieved in 1978, due to the major divestments of the last two years. Details are given in Note 1 to the Accounts on page 35. Sales by operations retained increased by approximately 9% which compared with the average rate of inflation in the UK of 8%.

The Sales chart analyses the totals into three geographical regions and shows how the restructuring has decreased the relative importance of overseas operations. For the first three years UK sales declined as a percentage of the total, but in the last two years the trend has reversed.

Trading profit reported for the year is after exceptional costs and provisions of £13 million, mostly related to the rationalisation of paper and wallpaper production in the UK and Europe. In response to falling demand, a paper machine and trailing blade coating machine have been closed at Imperial Paper Mill in Kent and wallcoverings production has ceased at one WPM mill and been curtailed at a second. Before the exceptional provisions, trading profit showed an increase of approximately 13% over the previous year.

The CCA Statement on page 32 shows that trading profit adjusted for inflation has fallen from £60 million to £58 million. A reduction of 3% after the exceptional items referred to above.

The trading profit of the major companies divested in Australia and South Africa was £25 million last year compared with £13 million up to the date of disposal. This was more than offset by a turn round in



Canada from a trading loss of £6 million in 1977 to a trading profit in 1978 of £8 million.

The Company's principal overseas interests other than those in Canada are now concentrated in the USA and Holland where sales for the year amounted to £108 million and £104 million respectively.

The Profit chart is analysed on the same geographical basis as the Sales chart. After poor results in 1975 and 1976, the UK profits have grown in the following three years at a higher rate than UK Sales.

The main changes in the results for associated companies were:

- the joint venture pulp and paper operations in British Columbia were adversely affected by a fall in pulp prices in the later part of 1977, which did not improve until late in 1978. The attributable share of profit was £3 million compared with £6 million in the previous year. These investments were sold on 30 November 1978;
- the remaining 50% of the share capital of Stanger Pulp and Paper (Pty) Ltd in South Africa was acquired in 1978 and the company is now consolidated as a wholly owned subsidiary. The net loss for the year was £4 million compared with £9 million in 1977 of which 50% was attributable to the Company.

With the reduction in net debt from £384 million at 31 March 1978 to £226 million at 31 March 1979, net interest paid was reduced from £35.4 million last year to £28.9 million.

Extraordinary losses in the year totalled £9.6 million compared with £41.5 million in the previous year. Details are given in Note 5 to the Accounts on page 37. Most items were a direct consequence of the restructuring actions taken during the year.

Taxation

The requirements of SSAP 15 on Deferred Taxation have been adopted in the Accounts this year and, where necessary, adjustments have been made to the

comparative figures. As a result, £65 million has been added to reserves. The rate of tax charged on this year's profit was 44% compared with the figure of 60% originally reported for last year.

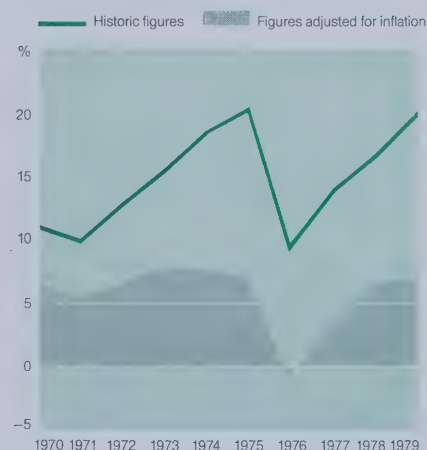
On a comparable basis the overall rate of taxation has fallen from 56% to 44%. The reduction was due to accumulated tax losses, principally in Canada and in the USA, being set against current profit.

Inflation Accounting

The graph compares the return on capital employed on a historical accounting basis over a ten-year period with equivalent figures adjusted for inflation.

In the supplementary statement on page 32 the profit and loss account and simplified balance sheet have been restated on a Current Cost basis. The key data have also been included in the Results in Brief on page 4. It is important to note that in the CCA calculations, the proposed dividend is once covered and that after extraordinary items a deficit is carried to reserves.

The effect of inflation on return on capital



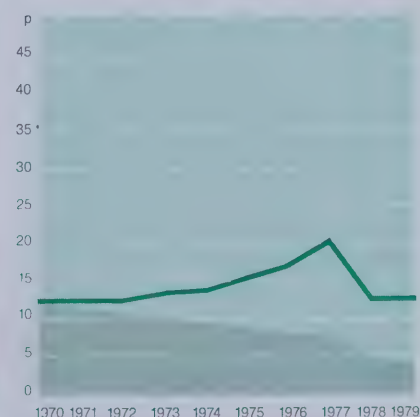
Dividends

Earnings per share have improved this year but, as the graph shows, the movement is far less significant when adjusted for inflation.

Earnings per share
— Earnings per share (EPS) — RPI applied to EPS using 1970 as base year



Dividend per share
— Dividend per share (DPS) — RPI applied to DPS using 1970 as base year



Directors' Report

The Board has decided to recommend a final dividend of 5p per ordinary share.

This proposed final dividend together with the interim paid on 9 January 1979 will make a total of 8p for the year, the same as for the previous year.

Subject to approval at the Annual General Meeting, which will be held on 2 August 1979, the final dividend will be paid on 14 August 1979 to shareholders on the register on 25 June 1979.

Fixed Assets

The Directors are of the opinion that the market value of land and buildings is materially in excess of the book amount.

For Current Cost Accounting the valuation, of which 87% was derived from professional valuations over the last 3 years, was £201 million compared with the book amount of £92 million.

Capital expenditure for the year was £48.3 million compared with £53.1 million in the previous year. The following analysis shows how the money was spent.

	1979 £m	1978 £m
Paper & Packaging	17.3	12.1
Newspapers	1.8	1.3
Other publishing	6.9	5.1
Decorative products	3.9	5.7
Building products	7.2	5.1
Canada	5.4	14.7
Australia & South Africa	5.8	9.1
	48.3	53.1

58% (1978 45%) of all expenditure was in the UK.

Consolidation of Overseas Results

To improve the reporting of financial information, it is intended that the results of overseas subsidiaries will be consolidated on a co-terminal basis with UK results for the next accounting period to 31 March 1980.

Directors

The names of the Directors of the Company at the date of this Report are shown on page 1. They all served as Directors throughout the year. In addition, Mr K H Davenport was a Director until 14 December 1978.

Mr Davenport, an Australian by birth, joined The Daily Mirror as a reporter in 1953. After holding a number of appointments in editorial and newspaper management, he was appointed a Director of International Publishing Corporation Ltd. in 1967. In 1972, he was appointed Managing Director of Reed Consolidated Industries Ltd., the Company's principal Australian subsidiary, and in 1974 he was elected to the Board of the Company. Mr Davenport agreed to continue as Managing Director of Reed Consolidated Industries, following the sale of the Company's 81% interest to James Hardie Asbestos Ltd. His colleagues on the Board wish to record their appreciation of the considerable contribution he has made over the years.

The Directors retiring by rotation, in accordance with the Articles of Association, are Mr J D Cormie, aged 48, Mr J H Macdonald, aged 51, and Mr G S G Witherington, aged 60, and, being eligible, they offer themselves for re-election.

Mr Cormie joined the Company in June 1976 as Finance Director. Mr Macdonald has been a Non-Executive Director of the Company since October 1975. He is Group Treasurer of the Royal Dutch/Shell Group of Companies. Mr Witherington, Deputy Chairman since August 1976, has 33 years' service, 16 as a Director.

A Statement of the interests of the Directors and their families in the share and loan capital of the Company and its subsidiaries is set out on page 45. At no time during the year has any Director had any material interest in a contract with the Company, being a contract of significance in relation to the Company's business, except under the Share Option Scheme as disclosed on pages 40 and 45.

Review of Divisional Trading Operations

Reed Group

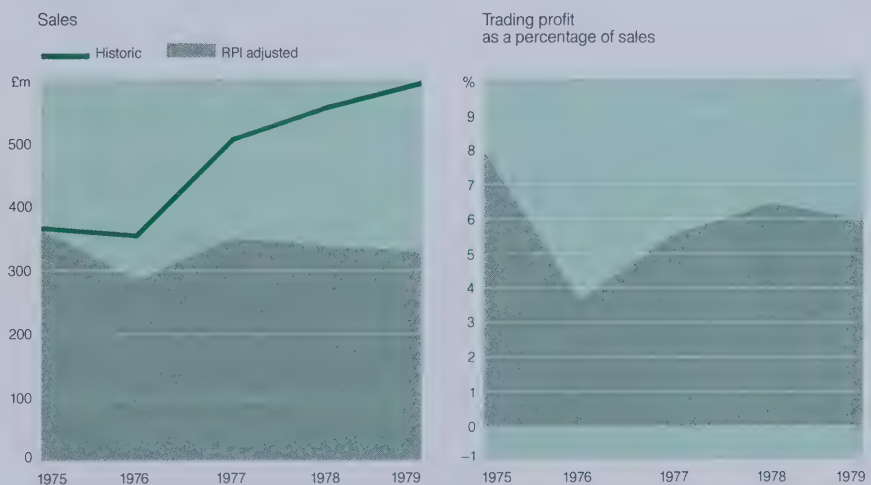
The principal products of this division are paper and board, corrugated cases, cartons, paper sacks and stationery. It employs about 20,000 people worldwide.

Reed Paper & Board (UK) produces about one-sixth of the total UK output of paper and board. Products manufactured include corrugated case materials, newsprint, printings and writings, carbonless copy paper, packaging boards and wrapping paper. The company has 30 paper and board machines and three coaters at nine mills and one converting factory. About half of the production is sold to other Reed companies for conversion or for distribution through Spicer-Cowan, one of the largest merchanting operations for paper, board and packaging materials in Europe.

The UK paper industry suffers from over-capacity and import penetration by lower cost integrated producers with relatively cheap raw materials available to them. In order to compete successfully with such producers, Reed Paper & Board has invested heavily in the substitution of virgin pulp by waste paper. As a result, recycled waste paper constitutes over 70% of the total fibre used compared with less than 50% by the UK industry as a whole. The company, therefore, is protected to a considerable degree from the vagaries of the world pulp market. This has been of particular importance this year, which has seen a tightening of that market and pulp price rises of 32%. Security of waste paper supply is ensured through J & J Maybank, Europe's largest waste paper merchant. Reed Paper & Board is continuing its investment in the use of recycled waste paper and plans to spend a further £14 million on this aspect of its operations over the next three years. During the year, a machine at Imperial Paper Mills, Kent, producing coated papers, was closed following discussion with the Trades Unions.

Reed Corrugated Cases is the largest

producer of corrugated fibreboard cases in the UK with 14 factories. Cartons and other forms of unit packaging are produced by Field at four UK factories. Both Reed Corrugated Cases and Field are market leaders in quality, design and product innovation. Product developments over recent years have been heavy duty corrugated materials, for which a new factory was opened in 1974; Reedecor, a corrugated fibreboard material combined with a quality of printing normally associated with cartons, and composite containers for applications such as shaker talcs. In order to maintain their positions as market leaders, both Reed Corrugated Cases and Field are involved in substantial capital expenditure programmes to modernise and re-equip their factories. Expenditure this year totalled £8 million with £32 million planned for the next three years.



During the year, there was an underlying growth rate of over 6% in the UK corrugated case market. This was somewhat unexpected and is unlikely to be maintained since the market is now considered to have almost reached maturity. Growth in future years, therefore, can be expected to move in line with that of the UK economy.

Reed Medway Sacks have been the leading UK manufacturer of paper sacks since they pioneered their development 50 years ago. However, the paper sack market in

Directors' Report

the UK is now in gradual decline and Reed Medway have diversified into the manufacture of high density polyethylene bags, where they operate at the top end of the market, and Reedex-F film, a new and exciting product launched this year. Reedex-F is a plastic film of unrivalled strength with a wide range of potential heavy duty applications.

Spicers manufacture all types of banker and pocket envelopes plus a number of other stationery products such as manuscript books and notepads. In addition to this manufacturing activity, the company provides a complete office supplies service through its regional distribution centres, supported by the publication of an annual catalogue.

Reed Group's manufacturing operations in Holland, which account for 10% of the division's sales, comprise a modern paper mill producing packaging papers, four corrugated case factories, by virtue of which Reed is the largest manufacturer of corrugated cases in Holland, and a solid board factory. The principal problems in Holland have been a very low rate of

economic growth and severe price competition from German and Belgian producers.

Reed Group's North American operations are engaged in the production of greaseproof and glassine papers and flexible packaging. They account for 4% of the division's sales.

Reed Group operates in mature markets and, therefore, its sales performance largely reflects the performance of the UK and, to a lesser extent, Dutch economies. Although the growth rate in 1978/79 showed an improvement on the previous year, there was continuing and increasing pressure on profit margins as some manufacturers filled capacity at the expense of profitability. The division, nevertheless, by rigorous attention to costs and by continued emphasis on quality, service and product innovation, succeeded in improving its profit margin. However, when closure and reorganisation costs are included the trading profit to sales ratio shows a reduction compared with last year.

International Publishing Corporation (IPC)

IPC, employing about 14,000 people worldwide, had a turnover of £328 million in 1978/79. Its operations are centred around five main activities:

Consumer Magazines – through IPC Magazines Ltd;

Business Journals – through IPC Business Press Ltd;

Consumer Books – through The Hamlyn Publishing Group Ltd;

Legal and Educational Books – through Butterworth & Co. (Publishers) Ltd; Printing.

IPC Magazines publishes 72 weekly and monthly consumer magazines and numerous annuals and library series. Its publications include 23 magazines for women, among them the four leading weeklies with an average combined sale of

over 5 million copies per week, 26 general and specialist magazines and 23 juvenile weeklies. Its titles include many market leaders covering a wide diversity of interest, such as Woman, Woman's Own, Horse & Hound, Country Life, New Musical Express, Ideal Home, New Scientist and Woman and Home. A major associated activity is the mail order sale of merchandise and services by the company through its own magazines and outside media.

IPC Business Press publishes 111 journals, more than 20 directories and 13 travel guides. Practically every major industrial category is catered for by its journals. The division also organises exhibitions and conferences sponsored by its publications. Business Press publishes many major titles including Farmers Weekly, World Airways Guide, Caterer & Hotelkeeper, Computer Weekly, Nursing Mirror,

Commercial Motor, Amateur Photographer, Bankers Almanac and Directory of Directors. The division is also active in the embryo information retrieval and video cassette markets.

The Hamlyn Publishing Group is concerned mainly with publishing a wide range of popular interest books on such topics as gardening, cookery and crafts, together with a large number of children's general interest and reference books. Recently, Hamlyn entered the paperback market with adult titles under its own name and children's titles under the Beaver imprint. Hamlyn also has a substantial activity in the mail order sale of instruction card schemes, with particular emphasis on cookery, crafts and child education.

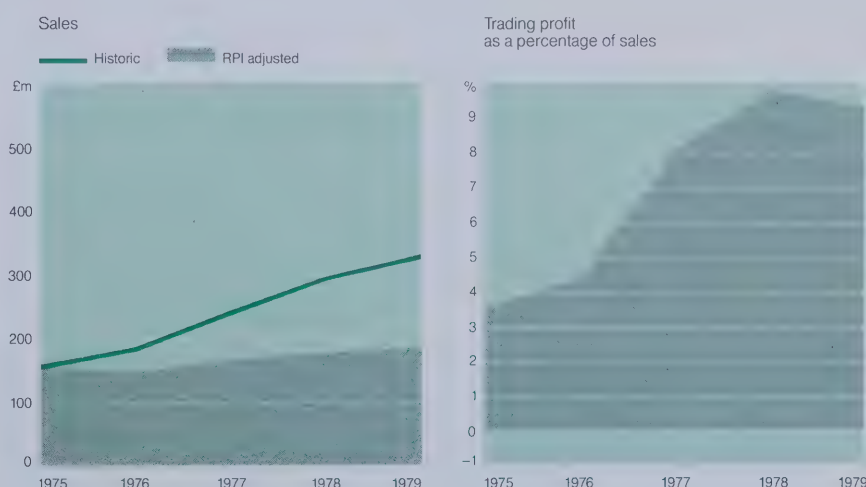
Butterworth is the largest publisher of legal books in the UK and also has substantial publishing interests in Australia, New Zealand, South Africa and Canada. Among its many internationally famous titles are Halsbury's Laws of England, Simons Taxes and All England Law Reports. Butterworth also has a large and expanding list of scientific, technical and medical books.

The printing operations of IPC include nine printing factories of varying sizes and its activities cover most forms of magazine and journal printing. The main factory is Odhams (Watford) which is the largest gravure printing operation in the UK. Substantial web offset printing facilities are located at Chapel River Press and Index Printers, and sheet-fed offset printing is carried out at Fleetway Printers and James Cond. The remaining factories are concerned mainly with providing composing and plate-making services.

Sales by the overseas operations totalled £58 million. These arose mainly in the Butterworth operations and in the USA where IPC has further substantial interests through the Cahners Publishing Company and International Computaprint Corporation (ICC). Cahners is one of the largest publishers of business journals in the USA and the largest organiser of exhibitions in that country. ICC is an

advanced technology computer composing operation and does work for the American Government and for many well-known American corporations.

Trading conditions varied considerably from market sector to market sector during the year. Circulation sales of magazines and journals remained generally buoyant throughout most of the year and notable increases were recorded by many major titles. Overall, 1979 has started with circulations at a higher level than for many years. A number of new consumer and business magazine titles were launched during 1978/79. These were mostly juvenile or specialist interest titles and should make a useful profit contribution in future years.



Advertisement sales were more mixed, and varied between market sectors. Sales of advertisement space on the major women's weeklies started the year at a comparatively low level but improved considerably in the second and third quarters. The general interest titles experienced a more consistent level of demand throughout the year, and the volume of advertisement sales in the consumer magazines overall was slightly up on the generally high levels achieved in the previous year.

Advertisement sales in business journals were good throughout the year, and volumes increased by about 10% overall to the highest levels since volumes were first recorded in 1971. The business press publishing and exhibition activities in the USA, operated through Cahners, had

Directors' Report

another excellent year and achieved record sales and profits.

Consumer books experienced difficult trading conditions in both home and overseas markets throughout the year, and profit from this activity has shown a sharp decrease. Competition remains intense with margins under pressure, particularly at the more popular end of the market. The recently launched range of adult and children's paperback books, however, has made good progress. Butterworth has maintained its position of pre-eminence in legal publishing, and continued to make good progress in the medical and technical

fields. The overseas subsidiaries of Butterworth have also made substantial progress in terms of both publications and profit, where a notable feature is the large and increasing proportion of indigenous publishing by the overseas subsidiaries.

Substantial progress has been made in improving the efficiency and profitability of the printing factories, although major problems remain at Odhams. A start has been made on modernising and re-equipping the factories, with the objective of making them among the best in the country.

Wall Paper Manufacturers (WPM)

WPM's main business is the manufacture and sale of decorative products in the trade and DIY sectors of the home improvement market. The division's brands and products include Crown and

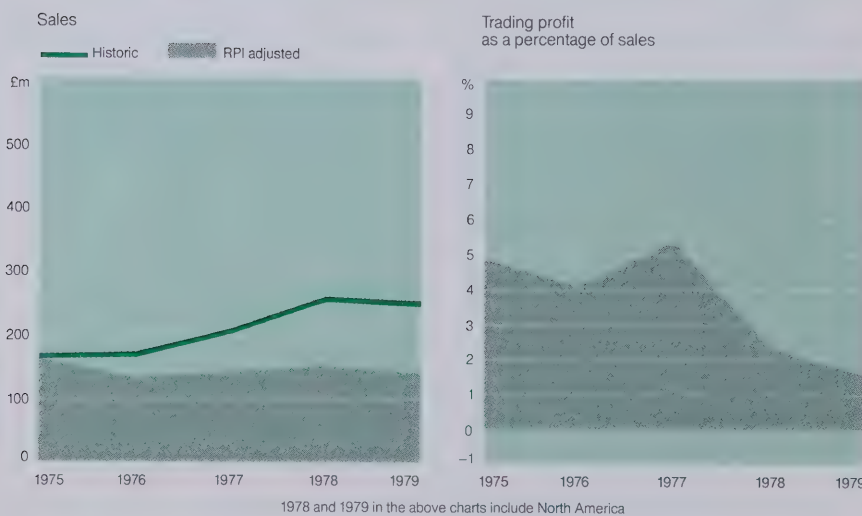
USA, West Germany, Eire and Denmark and a national distribution network for wallcoverings in the USA.

WPM has about 11,500 employees worldwide including those employed in the North American operations.

The year has seen a continuation of the process of rationalisation begun last year by withdrawal from retailing and cash and carry operations. This year, Crown's major merchandising activity was discontinued leaving the paint and wallcoverings operations to function as independent manufacturers and suppliers within their respective market sectors.

Whilst market conditions in Europe for most decorative products were reasonably buoyant throughout the year, the wallcoverings sector continued to be plagued by problems of severe over-capacity leading to fiercely competitive conditions. Substantially reduced exports from the UK and a rapidly declining demand for printed wallpapers made it necessary to close one wallpaper mill and significantly curtail production activity at a second. In addition, a major rationalisation of the UK wallcoverings distribution facilities was implemented during the year.

Crown Paint, benefiting from buoyant consumer demand, had a very successful year which was marked by energetic



Shand Kydd wallcoverings, Crown Paint, Sanderson wallcoverings, furnishing fabrics and carpets, and the Polycell range of DIY decorating products. The division is also engaged in the household textiles and ladies' fashion markets and in the manufacture of printing inks and rollers.

Overseas, there are six Polycell companies on the Continent of Europe, paint factories in Canada, Eire and East Africa, wallcoverings operations in Canada,

development. Disengagement from merchanting was combined with the successful establishment of a chain of independent trade centres which produced an increasing share of the large decorative paint trade market sector. The long-term programme of major plant investment was continued in both the decorative and industrial sides of the business.

Despite the continuing depression in export markets for fabrics, Sanderson Textiles had a very good year with markedly improved productivity supporting buoyant UK sales and a particularly successful Triad range of co-ordinated wallcoverings and fabrics. Additional investment was made in modern looms in order to improve further the Sanderson comprehensive range of the highest quality base fabrics.

In Polycell, Polytex textured surface treatment maintained a dominant market share despite strong competition, particularly from DIY retailers' own brand products. New products included Vinylweld, a unique adhesive for sheet pvc, whilst sales of DIY double glazing continued to grow. The Briton Chadwick brush unit and the Polycell continental

European operations performed satisfactorily.

During the year the former Bradfield Brett and Texales operations were combined under a single management to promote appropriate rationalisation within this profitable household textiles and printing services sub-division.

In North America, the major trading losses of the previous year, despite further rationalisation costs, were significantly reduced as a result of improving market conditions, management re-organisation and improved control systems. Although both the Canadian paint and wallcoverings operations were profitable, the wallcoverings distribution system in the USA again incurred a trading loss but at a much reduced rate. This improving trend is expected to continue.

The division's decline in profit margin in 1978/79 shown in the chart was after the impact of rationalisation costs. However, strenuous management effort resulted in margin and profit levels that were higher than those of the previous year before these exceptional costs.

Mirror Group Newspapers (MGN)

Mirror Group Newspapers publishes 17 newspapers in the UK, including the Daily Mirror, the Sunday Mirror, the Sunday People, the Sporting Life, Reville, the Scottish Daily Record and the Sunday Mail, as well as 10 weekly newspapers in the West of England. The division produces 37.5 million copies per week and employs about 8,000 regular staff.

In spite of £2 million profit lost as a result of industrial action and payments for industrial severance pay of £1.4 million, the trading profit continued the improvement that has taken place in recent years. However, as a percentage of sales, this fell to 6.1% against 6.2% in the previous year.

The Daily Mirror cover price was raised to 8p in May 1978 and the two national Sundays by 2p to 16p in April 1979. The



sale of the Daily Mirror averaged 3,778,000 copies and the two Sunday newspapers maintained their share of the

popular Sunday market at 49%. At 722,000 copies a day, the Daily Record dominated the popular Scottish market and the Sunday Mail averaged 772,000 for the year. Although economic conditions adversely affected advertising in the first five months, MGN finished strongly with advertisement revenue of £4 million above the previous year.

The year saw increasing competition with the launch in October by Express Newspapers of a new national popular tabloid, the Daily Star, printed in Manchester. Early signs indicate that this will have substantial implications on wage structures in the newspaper industry generally and on market shares in the popular tabloid field.

In London MGN had its best year for some time in industrial relations. The

main centre of unrest was Glasgow where pressure for pay parity with MGN London-based staff cost 10.9 million copies, including 13 consecutive days' loss of the Daily Record. At the beginning of 1979, the industrial unrest moved to Manchester and again a substantial number of copies was lost in support of a parity claim with rates being paid to Daily Star production staff.

MGN did not complete its development programme as planned. Major setbacks in equipment were experienced in introducing the most modern photocomposition system in the world. Additionally, considerable difficulties were experienced in re-training while simultaneously continuing composing by traditional methods. The main benefits of this scheme have still to be achieved.

Reed Building Products

The principal activities of this division are the manufacture and worldwide marketing of an integrated range of products centred on the bathroom and related plumbing services. It employs some 5,500 people.



The main UK subsidiaries are Twyford's (ceramic sanitaryware, taps and fittings), Edward Curran (steel and acrylic baths), Key Terrain (plastic pipes and fittings) and Walker Crossweller (shower fittings and mixing valves). In Holland, Sphinx manufactures ceramic sanitaryware,

ceramic wall and floor tiles and also refractories and coffee filter bags.

Approximately 46% of the division's turnover is concentrated in the UK, 42% in the Benelux countries and Germany, with the balance being accounted for by exports from the UK companies to markets outside Europe.

In the UK, the private and public sector of the domestic building industry remained flat throughout the year but Key Terrain, Twyford's and Walker Crossweller improved their profitability as a result of up-trading and taking full advantage of the relatively buoyant home improvement market. The UK steel bath operation suffered from artificially priced Italian imports which have gained a substantial share of the UK market and have destroyed margins both in the UK and in export markets.

The UK companies experienced, particularly in the second half of the year, a severe downturn in export demand due to the closure of the Nigerian and Iranian markets and a substantial fall off in demand in the Middle East.

On the continent of Europe, Sphinx,

which represented 44% of the division's turnover, continued to operate against the background of a strong guilder and severe price competition, principally from Italy and France.

The tile operations of Sphinx were particularly affected by the severe price competition and by start up and running in costs related to the closure of the Belgian tile plant and its transfer to the modernised tile factory at Maastricht, Holland. The concentration of tile production at Maastricht is aimed to yield substantial cost reductions without loss of volume.

The profitability of the sanitaryware, refractory and most other operations of Sphinx showed improvements over the previous year.

However, these improvements were insufficient to compensate for the substantial adverse effect of the tile operations and the total trading result for Sphinx was slightly below break-even.

Capacity of the refractory operation was increased by 30% during the year at a capital cost of £1.3 million.

Reed Paper Ltd – Canada

During the year Reed Paper has continued its review of operations to identify those which were unprofitable, marginal or failed to generate sufficient cash flow. As a result a number of operations have been divested or closed and the details of the principal divestments are contained earlier in this Report.

The company is now a forest product business whose two major operations consist of a kraft pulp and paper mill in Dryden, Ontario and a newsprint mill in Quebec. The company is also involved in certain chemical operations principally concerned with lignosulphonates at the Quebec mill; the raw material used would otherwise represent an expensive effluent problem. The remaining operations are a pigment business in Toronto and a flexible packaging business based in Winnipeg. The company employs approximately 5,000 people in Canada.

Reed Paper made a trading profit of £8 million for the year ended 31 December 1978 compared with a trading loss of £6 million in the previous year. The major reasons for the return to profitability were a strong newsprint market, a reduction in costs and improvements in productivity. The weak Canadian dollar greatly improved the competitiveness of Canadian forest products both in the USA and in

the rest of the world. As the majority of the company's pulp and newsprint is sold outside Canada this was a further major factor in the recovery.

As a result of improvements in productivity and in demand new production records were set at both mills. In addition, sales of chemicals increased by 30% principally as a result of investment in additional capacity.

Pulp markets strengthened during the second half of the year and prices for fully bleached kraft pulp were increased by US\$40 to US\$340 per short ton in October 1978. Pulp production at the Dryden mill was 20% higher than in 1977 as good progress was made in resolving the pulp mill's operational and equipment problems. Buoyant demand in the Canadian paper markets led to a significant improvement in paper prices but paper sales were constrained by production shortfalls at Dryden.

The remaining flexible packaging operations in Winnipeg and Roseville, Minnesota, had a difficult year with markets for their production remaining depressed until the last quarter.

Although Reed Paper is now operating profitably and generating a positive cash flow, the problems associated with the Dryden operations still remain. Despite

Directors' Report

major capital expenditure in recent years on improving pollution control and on increasing the mill's sustainable production capacity, further significant capital expenditures on modernisation and pollution control are still needed. The Ontario Ministry of Environment has

proposed that Reed Paper be required to spend considerably more and at a faster rate on pollution control than the company considers it can afford. The management of Reed Paper is making every effort to resolve the matter in a responsible way.

Reed Finance (Pty) Ltd – South Africa

The Company's principal interests in South Africa, which are held by Reed Finance (Pty) Ltd, comprise a pulp and paper mill at Stanger, Natal, and stationery manufacturing and paper merchandising businesses operating throughout the Republic. The total number of people employed in the Group's South African operations is some 1,900.

From the end of 1977, economic activity within South Africa started to accelerate and the downward phase of the business cycle, which lasted more than three years and was the longest since the second world war, thus came to an end. The economic revival was caused by higher export volumes and a rise in real domestic expenditures, both in the private and public sectors. Inflation remained a problem, however, and the low employment level together with a drop in foreign capital inflows represented inhibiting factors in the economic upswing.

The mill at Stanger, which commenced production in 1976, manufactures coated and uncoated papers, tissue and bleached pulp from local sugar cane fibre. Despite difficult market conditions, it has now successfully gained a significant place in the market with products which are fully accepted and of a high standard and quality. Further technical improvements have been made and, by the end of the year, the mill was achieving a trading profit.

Reed Finance's stationery manufacturing subsidiary, Reed Stationery (Pty), through considerable management effort, has continued the previous year's marked improvement in trading results; trading profit having improved by 16%. During the year, a new range of branded products was successfully introduced.

The paper merchandising operations regained market share, despite a fiercely competitive environment, and the efforts of management were reflected in the improvement in the results in the latter part of the year.

Associated Companies

Details of the Company's investments in its principal associated companies are given on page 39.

The Company's share of the profits of its associated companies before taxation fell from £9.8 million to £5.5 million made up as follows:

	1979 £m	1978 £m
Pulp, lumber, paper and paper products	3.2	5.6
Publishing, printing and outdoor advertising	2.2	2.4
Property	0.1	—
Entertainment	—	1.8
	<u>5.5</u>	<u>9.8</u>

The Company's interests in a number of

associated companies have been disposed of during the past two years and its share of the profits of those companies included in the figures shown above amounted to £3.3 million in 1979 and £11.8 million in 1978.

As stated on page 15 of this Report, Stanger Pulp and Paper (Pty) Ltd is this year consolidated as a wholly-owned subsidiary whilst in 1978 it was treated as an associated company. The loss attributable to the Company for 1978 included in the above figures was £4.7 million.

London & Provincial Poster Group Ltd

The Company has a 48% equity interest in London & Provincial Poster Group Ltd, a UK listed company which is a major outdoor advertising contractor with key poster sites in most parts of the country. It also provides advertising facilities in shopping precincts and sports arenas, and has a 50% interest in Adshel, the leading contractor for advertisement space on bus shelters. In addition, the company is active in outdoor advertising in Australia.

The year to December 1978 was a record for London & Provincial, with a pre-tax profit of £3 million compared with £2 million in 1977. The amount attributable to the Company was £1.4 million.

Property Companies

The Company retained its interests in MEPC-Reed Properties Ltd (49%) and Kings Reach Investments Ltd (39%).

No development activity was undertaken by MEPC-Reed but its investment properties were substantially all let at the year-end and the company again earned a small profit.

IPC continues to occupy the office accommodation at Kings Reach, Southwark. Progress was made during the year in letting the shops in the development. Increased rental income, and reduced interest and costs, resulted in a reduction in the revenue loss for the year.

Personnel

The total number of people employed by the Group at the year-end was 68,000 compared with 82,800 at the beginning of the year. They were located in the following areas:

	1979	1978
	Thousands	Thousands
UK	51.5	53.1
Continent of Europe	5.3	5.7
North America	8.8	10.0
Australasia	0.2	4.4
Africa	2.2	9.6
	<u>68.0</u>	<u>82.8</u>

The reduction in the numbers employed arose mainly as a result of the divestments effected during the year.

The average number of persons employed in the UK in each week of the year was 53,000 (1978 – 54,000) and the aggregate remuneration paid to them for the year was £243 million (1978 – £209 million).

Codes of Conduct

The Company maintains close awareness of and, in many cases, is involved in the development of codes of practice and other self-regulatory measures by which industry through various national and international bodies seeks to set and observe ethical and socially-desirable standards in the conduct of its operations.

On an international basis, it has endorsed through the CBI support for the OECD Guidelines for Multinational Enterprises and, through the International Chamber of Commerce, its Code relating to extortion and bribery in business transactions.

Reed International Group companies believe in equality of treatment and of opportunity for all employees regardless of race, sex or religion. The responsibility for implementing and monitoring this policy lies with the management of the individual businesses.

Copies of the statement in accordance with the requirements of the Code of Conduct for companies with interests in South Africa will be available on request during September.

Directors' Report

Health and Safety

Continuing progress has been made during the year in providing for the health and safety of Group employees. Safety policies and Safety committees representing employees are well established in all Group companies. In consultation with the Trades Unions, substantial progress has been made in achieving agreed, workable procedures and in developing joint training. Effective safety policies and practices continue to be treated as a fundamental responsibility of management at all levels.

Pension Management

In recognition of the growing interest in pension matters both by employees and the Trades Unions, agreement was reached during the year with representatives of employees on a structure for consultation about, and involvement in, the operation of the Reed Pension Scheme. This Scheme provides pensions mainly for employees of the Reed Group, WPM and Reed Building Products divisions and of the Company.

Pensions for employees of the IPC and MGN divisions are provided by the Reed Publishing Pension Scheme which has had a similar structure for a number of years.

Substantial Holdings

So far as is known, no shareholder has any beneficial interest amounting to 5%, or more, of the Ordinary Share Capital of the Company.

Auditors

The Auditors, Price Waterhouse & Co, are willing to continue in office and resolutions re-appointing them and authorising the Directors to fix their remuneration will be submitted to the Annual General Meeting.

Exports

Exports from the UK, including sales to overseas subsidiaries, amounted to £87.2 million (1978 £84.6 million). The principal exports were magazines, periodicals and books totalling £31.6 million and decorative products of £28.2 million, mainly wallcoverings and fabrics.

Donations

Donations made by the Company and its subsidiaries during the year for charitable purposes in the UK amounted to £118,000 (1978 £106,000) of which £16,000 were for educational purposes. The Company continued its policy of not making donations for political purposes in the UK.

By Order of the Board
G G Stocks, Secretary
4 June 1979

Auditors' Report

To the Members of Reed International Limited

We have examined the accounts set out on pages 28 to 31 and pages 34 to 44 which have been prepared under the historical cost convention as modified by the revaluation of certain properties. In our opinion these accounts give, under the convention stated above, a true and fair view of the state of affairs of the Company and the Group at 31 March 1979 and of the profit and the source and application of funds of the Group for the year then ended and comply with the Companies Acts 1948 and 1967.

We have also examined the summary statement of consolidated accounts adjusted for inflation as set out on pages 32 and 33. In our opinion the current cost accounting information has been properly prepared in accordance with the methods set out therein to give the information proposed in the Accounting Standards Committee's interim recommendations on inflation accounting of November 1977.

Price Waterhouse & Co.
Chartered Accountants
London

30 May 1979

Accounting Policies

Basis of Consolidation

Date of accounts

For administrative convenience the profit and loss accounts of the Parent Company and all UK subsidiaries are for the 52 weeks to 1 April 1979 and the balance sheets are made up to this date. In order to avoid delay in the completion of the consolidated accounts, the financial year of most overseas subsidiaries ended on 31 December 1978.

Translation of overseas currencies into sterling

Profit and loss items are translated at appropriate average rates, intangible assets at rates at date of acquisition, other assets and liabilities at rates at balance sheet dates; the resulting currency exchange gains or losses are taken direct to reserves.

Associated Companies

The consolidated accounts include the appropriate share of the results of associated companies. An associated company is a company in which a substantial equity shareholding is held on a long term basis and there is participation in commercial and financial policy decisions.

The years in respect of which associated companies' results have been included vary, but none ended earlier than 30 September 1978 and the majority ended on 31 December 1978.

Research and Development

Expenditure is written off as incurred.

Stocks

The amount included for stocks is stated at the lower of cost, including production overheads, and estimated net realisable value.

Pensions

It is the policy of the Group to provide for pension liabilities by payments to trusts independent from the finances of the Group and contributions by companies are charged against profits. Liabilities which relate to past service are being funded over a period of years.

Properties and Plant

Grants

The cost of properties and plant is stated after deduction of grants receivable.

Depreciation

No depreciation has been provided on land.

For properties and plant, depreciation has been provided on a basis that will write off the book value of these assets within their expected life. In general, annual depreciation rates are 2% for freehold buildings and for long leases and 5% to 33 $\frac{1}{3}$ % for plant and equipment.

Short leases are written off over the duration of the lease.

Profit and Loss Account

Sales are shown at invoice value and exclude VAT and sales between subsidiary companies. All dividends from UK companies include an addition for the imputed tax credit.

Deferred Taxation

The Group has changed its basis of accounting for deferred taxation to comply with the Statement of Standard Accounting Practice No. 15, using the liability method.

Deferred tax provisions are now only made for capital allowances in excess of depreciation charged in the accounts, stock increase relief and other timing differences when it is expected that the potential tax will be payable in the foreseeable future. A deferred tax asset is included in the Balance Sheet for Advance Corporation Tax recoverable in the short-term and in respect of expenditure provisions which will attract relief in the foreseeable future.

No provision is made for taxation which would be payable if profits retained in overseas subsidiary and associated companies were remitted to the UK.

No account is taken of unrelieved overseas tax losses, which are available for set off against future taxable profits of the companies concerned.

Consolidated Profit and Loss Account for the Year Ended 31 March 1979

£ million

	1979	1978
Sales	<u>1,610.9</u>	<u>1,623.2</u>
Trading Profit note 2	106.8	106.6
Share of Profits of Associated Companies note 11	<u>5.5</u>	<u>9.8</u>
Operating Profit	112.3	116.4
Interest note 3	<u>28.9</u>	<u>35.4</u>
Profit before Taxation	83.4	81.0
Taxation note 4	<u>36.3</u>	<u>45.3</u>
	47.1	35.7
Outside Shareholders' Interests note 17	<u>4.4</u>	<u>7.8</u>
Profit attributable to Shareholders before Extraordinary Items	42.7	27.9
Extraordinary Items note 5	<u>(9.6)</u>	<u>(41.5)</u>
Profit (Loss) after Taxation and Extraordinary Items	33.1	(13.6)
Dividends Paid and Proposed note 6	9.1	9.1
Profit (Loss) for the Year Transferred to Reserves note 16	<u>24.0</u>	<u>(22.7)</u>
Earnings per Ordinary Share note 7	<u>38.0p</u>	<u>24.8p</u>

Retained Profit and Reserves [note 16](#)

At March 1978 as previously reported	100.3	156.1
Adjustment on change in accounting policy for deferred taxation note 16	<u>64.6</u>	<u>61.4</u>
Opening reserves restated	164.9	217.5
Profit (loss) for the year transferred	24.0	(22.7)
Exchange differences	<u>(9.9)</u>	<u>(29.9)</u>
At March 1979	<u>179.0</u>	<u>164.9</u>

1978 Restated to reflect the change in basis for providing deferred taxation

Consolidated Balance Sheet 31 March 1979

£ million

		1979	1978
Properties and Plant	At cost or valuation note 9	528.3	594.6
	Accumulated depreciation note 9	<u>254.6</u>	<u>277.2</u>
		273.7	317.4
Investments	Associated companies note 11	22.6	44.5
	Other investments note 12	<u>5.8</u>	<u>13.9</u>
		28.4	58.4
Goodwill	Excess of cost of subsidiaries over book amount of assets at date of acquisition note 13	152.9	173.4
Current Assets	Stocks note 14	211.3	266.0
	Debtors	289.7	293.2
	Deferred tax relief note 18	10.0	8.3
	Short term deposits	90.1	54.8
	Bank balances	<u>22.2</u>	<u>14.7</u>
		<u>623.3</u>	<u>637.0</u>
Current Liabilities	Bank advances: secured	4.5	8.9
	: unsecured	14.7	49.3
	Short term advances and bills payable	8.6	18.6
	Creditors	253.0	237.0
	Taxation	26.2	22.8
	Dividends	<u>5.6</u>	<u>2.3</u>
		<u>312.6</u>	<u>338.9</u>
		310.7	298.1
		<u>765.7</u>	<u>847.3</u>
Shareholders' Funds	Share capital: preference note 15	4.1	4.1
	: ordinary note 15	111.7	111.7
	Share premium	139.6	139.6
	Reserves note 16	<u>179.0</u>	<u>164.9</u>
		434.4	420.3
Outside Shareholders' Interests note 17		20.6	50.3
Loan Capital note 19		<u>310.7</u>	<u>376.7</u>
		<u>765.7</u>	<u>847.3</u>

1978 Restated to reflect the change in basis for providing deferred taxation

A A Jarratt *Director*

J D Cormie *Director*

Parent Company Balance Sheet 31 March 1979

£ million

		1979	1978
Properties and Plant	At cost <i>note 9</i>	3.6	3.4
	Accumulated depreciation	<u>1.4</u>	<u>1.3</u>
		2.2	2.1
Subsidiary Companies <i>note 8</i>		435.0	459.3
Associated Company	At cost (unlisted)	—	0.2
Current Assets	Debtors	5.6	0.8
	Recoverable ACT	16.2	25.7
	Short term deposits	39.3	45.6
	Bank balances	<u>—</u>	<u>1.0</u>
		<u>61.1</u>	<u>73.1</u>
Current Liabilities	Bank advances: unsecured	0.2	—
	Short term advances	4.5	0.4
	Creditors	20.4	12.2
	Taxation	4.4	4.7
	Dividends	<u>5.6</u>	<u>2.3</u>
		<u>35.1</u>	<u>19.6</u>
		26.0	53.5
		<u>463.2</u>	<u>515.1</u>
Shareholders' Funds	Share capital: preference <i>note 15</i>	4.1	4.1
	: ordinary <i>note 15</i>	111.7	111.7
	Share premium	139.6	139.6
	Reserves <i>note 16</i>	<u>41.1</u>	<u>33.3</u>
		296.5	288.7
Loan Capital <i>note 19</i>		<u>166.7</u>	<u>226.4</u>
		<u>463.2</u>	<u>515.1</u>

1978 Restated to reflect the change in basis for providing for deferred taxation

A A Jarratt *Director*

J D Cormie *Director*

Current Cost Statement

Summary of Consolidated Accounts Year Ended 31 March 1979

£ million

Results for the Year

	1979		1978	
	CCA	Historic	CCA	Historic
Sales	<u>1,611</u>	<u>1,611</u>	<u>1,623</u>	<u>1,623</u>
Trading profit	107	107	106	106
Additional depreciation	(31)		(35)	
Cost of sales adjustment	<u>(18)</u>	<u> </u>	<u>(11)</u>	<u> </u>
Adjusted trading profit	58	107	60	106
Share of associated companies	<u>3</u>	<u>5</u>	<u>8</u>	<u>10</u>
Adjusted operating profit	61	112	68	116
Interest	<u>(29)</u>	<u>(29)</u>	<u>(35)</u>	<u>(35)</u>
	32	83	33	81
Gearing adjustment	<u>17</u>	<u> </u>	<u>19</u>	<u> </u>
Adjusted profit before tax and extraordinary items	49	83	52	81
Taxation	<u>(36)</u>	<u>(36)</u>	<u>(45)</u>	<u>(45)</u>
	13	47	7	36
Minority interests	<u>(3)</u>	<u>(4)</u>	<u>(6)</u>	<u>(8)</u>
	10	43	1	28
Dividends proposed and paid	<u>(9)</u>	<u>(9)</u>	<u>(9)</u>	<u>(9)</u>
	1	34	(8)	19
Extraordinary items	<u>(10)</u>	<u>(10)</u>	<u>(41)</u>	<u>(41)</u>
Adjusted retained (losses) profit	<u>(9)</u>	<u>24</u>	<u>(49)</u>	<u>(22)</u>

Financial Position at Year End

Fixed assets	562	274	607	317
Investments	37	28	86	59
Goodwill	—	153	—	173
Net current assets	<u>315</u>	<u>311</u>	<u>301</u>	<u>298</u>
	<u>914</u>	<u>766</u>	<u>994</u>	<u>847</u>
Shareholders' funds	582	434	554	420
Outside shareholders' interests	21	21	63	50
Loan capital	<u>311</u>	<u>311</u>	<u>377</u>	<u>377</u>
	<u>914</u>	<u>766</u>	<u>994</u>	<u>847</u>

1978 Restated to reflect the change in basis for providing for deferred taxation

Notes on the Current Cost Statement

Hyde Guidelines

The statement has been prepared on the basis of 'Inflation Accounting – an interim recommendation by the Accounting Standards Committee' issued on the 4th November 1977 and generally known as the 'Hyde Guidelines'.

Where appropriate, reference has been made to the ASC Exposure Draft 18 'Current Cost Accounting' for more detailed guidance.

Fixed Assets

Land and buildings have been revalued using professional valuations where available (87% of the total) and appropriate indices in other cases.

Plant and other fixed assets have been revalued by use of suppliers' or engineers' estimates (28%) and specific indices (48%) and at a calculated economic value (24%).

Intangible Assets

No CCA value has been attributed to the real worth of patents, publishing titles and consumer product brand names. The excess of cost of subsidiaries over book amount of assets at date of acquisition, goodwill, to some extent represents under valuation of fixed assets in the historic Balance Sheet and has been deducted from shareholders' funds in the CCA statement.

Depreciation

CCA provision for depreciation (Historic depreciation plus 'Additional depreciation') has been calculated using the revaluation of fixed assets and estimates of remaining useful life.

Cost of Sales Adjustment

Detailed calculations have been made for individual operating units, mostly by the averaging method using specific indices or materials price lists.

Extraordinary/Exceptional Items

Extraordinary/exceptional items including goodwill written off represent historic amounts and have not been adjusted to a CCA basis.

Currency Translation

The exchange rates used in the CCA statement are the same as for the historic basis, as detailed in the Accounting Policies.

Associated Companies

Where Associated Companies have not prepared CCA statements on the basis of the Hyde Guidelines estimates have been made.

Gearing Adjustment

The gearing proportion has been calculated as the ratio of the net balance of monetary liabilities to the net balance of monetary liabilities plus the ordinary share capital, share premium and reserves.

Results for the Year

CCA results are presented adjacent to historic results in the statement to allow for easy comparison.

Financial Position at Year End

The Hyde Guidelines do not require the presentation of a CCA Balance Sheet. A brief summary is given to show the main movements in asset values.

Source and Application of Funds

£ million

	1979	1978
Funds Generated from Operations		
Profit before tax	83.4	81.0
Extraordinary items other than major divestments involving movement of funds	—	(4.8)
Less profit attributable to group retained by associates	<u>(4.7)</u>	<u>(6.6)</u>
	78.7	69.6
Depreciation	33.0	33.6
Sales of fixed assets	14.4	10.2
Other	<u>0.3</u>	<u>0.7</u>
Total Inflow of Funds from Operations	<u>126.4</u>	<u>114.1</u>
Application of Funds from Operations		
Capital expenditure	(48.3)	(53.1)
Tax paid	(19.6)	(29.9)
Payment to minority shareholders	(0.5)	(5.4)
Dividends paid to shareholders	(5.8)	(14.7)
Changes in working capital		
Stocks	0.7	27.6
Debtors	(35.9)	4.1
Creditors	30.9	(9.3)
Exchange losses on net current assets	<u>(14.6)</u>	<u>(17.9)</u>
	<u>(18.9)</u>	<u>4.5</u>
Total Application of Funds from Operations	<u>(93.1)</u>	<u>(98.6)</u>
Net Movement in Funds from Operations	33.3	15.5
Other Movements		
Proceeds from sales of major investments and subsidiaries note 1	132.8	39.1
Less not received in cash at year end	(20.8)	—
Net bank borrowings of companies sold note 1	19.1	—
Net repayment of loans (excluding exchange gains £11.7m (£9.2m))	(66.7)	(13.5)
Other	<u>(5.9)</u>	<u>(12.9)</u>
Movement in Net Liquid Funds	<u>91.8</u>	<u>28.2</u>
represented by		
Decrease in bank and short term advances	53.2	8.8
Increase in short term deposits and bank balances	<u>38.6</u>	<u>19.4</u>
	<u>91.8</u>	<u>28.2</u>

Notes on the Accounts

£ million

1 Major Divestments and Acquisitions

During the year a number of major divestments were made and the Group's share of the net assets sold are shown below. The Butterworth Companies were acquired back from Reed Consolidated Industries Australia for cash. The remaining 50% of Stanger Pulp and Paper (Pty) Ltd in South Africa was acquired for a nominal consideration; outstanding shareholders loans of £7.4m were transferred to Reed by the former shareholders together with a cash payment of £9.7m, the net effect is shown below.

	Proceeds (Cost)	Total NBA	Fixed Assets	Goodwill	Working Capital	Net Bank Borrowings	Loan Capital	Other
MEPC Loan Stock	3.6	2.5	—	—	—	—	—	2.5
<i>Australia</i>								
Reed Consolidated Industries Ltd net of Butterworth Companies	25.9	28.6	26.5	(0.1)	29.6	(12.1)	(6.5)	(8.8)†
<i>Canada</i>								
British Columbian Joint Venture Companies	26.3	13.0	—	—	—	—	—	13.0
Reed Lumber Ltd	8.3	11.6	5.8	1.4	13.5	(7.0)	(2.5)	0.4
Packaging Companies	13.0	18.5	15.0	2.6	4.7	—	(0.3)	(3.5)
<i>South Africa</i>								
Reed Nampak Ltd	36.9	39.9	18.4	8.1	33.7	(2.1)	(1.6)	(16.6)†
Building Products Companies	1.7	2.6	3.9	1.4	2.7	(1.0)	—	(4.4)
Stanger Pulp and Paper (Pty) Ltd*	17.1	17.1	(33.3)	—	0.5	3.1	29.6	17.2
Total	132.8	133.8	36.3	13.4	84.7	(19.1)	18.7	(0.2)
Total 1978	39.1	44.5						

† Includes (£8.2m) and (£21.1m) respectively for minority interests.

* Acquisition.

The table below shows the comparative figures of sales and profits of the divestments included in the accounts for 1978 and for 1979 up to the dates of sale.

	1979 Sales	Profit before Tax	Attributable Net Profit	1978 Sales	Profit before Tax	Attributable Net Profit
<i>Australia</i>						
Reed Consolidated Industries Ltd	96.3	2.8	1.5	139.7	6.4	3.5
<i>Canada</i>						
British Columbian Joint Venture Companies	—	2.5	1.6	—	6.0	4.0
Reed Lumber Ltd	39.0	2.0	2.0	49.3	3.0	3.0
Packaging Companies	22.5	(2.2)	(2.2)	23.7	(3.0)	(3.0)
Operations discontinued in 1978	—	—	—	27.7	(3.4)	(3.4)
<i>South Africa</i>						
Reed Nampak Ltd	47.3	9.4	3.4	93.2	17.8	5.4
Building Products Companies	5.4	0.4	0.4	9.1	0.1	0.1
Total	210.5	14.9	6.7	342.7	26.9	9.6
Comparative figures for Stanger Pulp and Paper (Pty) Ltd	8.7	(3.3)	(3.3)	—	(4.7)	(4.7)

Notes on the Accounts

£ million

2 Trading Profit	1979	1978
<i>The trading profit is after charging</i>		
Depreciation	33.0	33.6
Hire of plant	9.7	11.4
Auditors' remuneration (Parent Company £0.05m (£0.04m))	1.7	1.8
Exceptional costs and provisions for rationalisations	13.4	—
Directors' emoluments note 20	0.7	0.6
3 Interest less investment income		
<i>Interest payable</i>		
On long term loans	27.2	31.0
On bank advances and loans wholly repayable within five years	<u>10.9</u>	<u>10.6</u>
	38.1	41.6
<i>Income from investments, other than associated companies, and deposits</i>		
Listed	(0.1)	(0.2)
Unlisted	(0.5)	(1.2)
Short term deposits	<u>(7.6)</u>	<u>(3.8)</u>
	(8.2)	(5.2)
<i>Discount on redemption of loan capital</i>	(1.0)	(0.6)
<i>Short term investment provision no longer required</i>	<u>—</u>	<u>(0.4)</u>
Total	<u>28.9</u>	<u>35.4</u>
4 Taxation		
<i>Taxation on the chargeable profit for the year</i>		
UK corporation tax at 52% (52%)	28.8	29.2
Relief for overseas tax	(4.1)	(3.5)
Overseas tax	<u>9.1</u>	<u>13.6</u>
Total (including deferred taxation of (£0.9m) £1.2m)	33.8	39.3
<i>Taxation on share of associated companies</i>		
profits (including overseas tax £1.7m £3.5m)	<u>2.5</u>	<u>6.0</u>
Total	<u>36.3</u>	<u>45.3</u>

The charge for taxation on the profits of the year has been reduced by £8.3m (1978 restated £3.2m) in respect of long-term tax deferrals and by £1.5m tax relief on goodwill.

The comparative figures have been restated in respect of deferred taxation as a result of the change in accounting policy set out on page 28.

Notes on the Accounts

£ million

5 Extraordinary Items	1979	1978
Net loss on major divestments note 1	(1.0)	(5.4)
Other disposals and net closure provisions	(1.5)	(21.6)
Goodwill written off	(7.1)	(8.4)
Share of revaluation of MEPC-Reed properties	—	(6.1)
	<u>(9.6)</u>	<u>(41.5)</u>
Excludes exchange differences taken direct to reserves.		
6 Dividends Paid and Proposed		
Preference	0.2	0.2
Ordinary		
Interim 3p 5.9555p	3.3	6.6
Final 5p 2.0445p	<u>5.6</u>	<u>2.3</u>
Total 8p 8.0000p (11.94p (12.12p) with tax credit assuming a tax rate of 33%)	<u>8.9</u>	<u>8.9</u>
	<u>9.1</u>	<u>9.1</u>
7 Earnings per Ordinary Share		
The calculation of earnings per ordinary share is based on earnings before extraordinary items of £42.5m (£27.7m) and on the 111.7m (111.7m) ordinary shares in issue during the year		
	<u>38.0p</u>	<u>24.8p</u>
8 Subsidiary Companies		
Shares at cost less provisions	201.2	206.8
Amounts due from subsidiaries	489.8	477.3
Amounts due to subsidiaries	<u>(256.0)</u>	<u>(224.8)</u>
Total	<u>435.0</u>	<u>459.3</u>
The principal subsidiaries are shown on page 48		

Notes on the Accounts

£ million

9 Properties and Plant: Consolidated	Land and buildings cost or valuation	Plant and equipment cost	Total
<i>Cost or valuation</i>			
At 31 March 1978	178.4	416.2	594.6
Additions	4.7	43.6	48.3
Held by new subsidiaries on acquisition	6.1	30.8	36.9
Deficit on revaluations	(0.3)	—	(0.3)
Disposals and divestments	(47.2)	(89.4)	(136.6)
Exchange adjustments	(3.3)	(11.3)	(14.6)
At 31 March 1979	<u>138.4</u>	<u>389.9</u>	<u>528.3</u>
<i>Accumulated depreciation</i>			
At 31 March 1978	47.8	229.4	277.2
Charge to profit and loss account	3.6	29.4	33.0
Accumulated by new subsidiaries prior to acquisition	—	2.0	2.0
Provided on disposals and divestments	(2.9)	(48.2)	(51.1)
Exchange adjustments	(2.0)	(4.5)	(6.5)
At 31 March 1979	<u>46.5</u>	<u>208.1</u>	<u>254.6</u>
<i>Net book amounts 31 March 1979</i>	<u>91.9</u>	<u>181.8</u>	<u>273.7</u>
<i>Land and buildings at cost or valuation</i>	1979	1978	
Freehold property	118.8	151.9	
Leasehold property, 50 years or more unexpired	12.2	13.0	
Leasehold property, less than 50 years unexpired	4.4	10.0	
Timber limits	3.0	3.5	
	<u>138.4</u>	<u>178.4</u>	
<i>Amount of valuations</i>			
Pre 1961	4.0	4.2	
1961/1970	11.7	13.8	
1971/1978	5.3	26.9	
	<u>21.0</u>	<u>44.9</u>	

No depreciation has been provided on land (at cost or valuation £12.4m (£26.0m))

The gross amount of depreciable assets is £515.9m (£568.6m)

The consolidated land and buildings of £138.4m includes £1.8m in respect of the Parent Company

10 **Future Capital Expenditure not provided in the Accounts: Consolidated**

	1979	1978
Contracts placed	12.2	13.5
Authorised by directors but contracts not yet placed	20.9	25.2
Total	<u>33.1</u>	<u>38.7</u>

£ million

11 Associated Companies: Consolidated

	Listed		Unlisted		Total	
	1979	1978	1979	1978	1979	1978
<i>Attributable value</i>						
Cost less amounts written off	1.2	1.2	24.8	47.9	26.0	49.1
Share of post acquisition retained profits (losses)	2.1	1.2	(5.5)	(5.8)	(3.4)	(4.6)
Total	<u>3.3</u>	<u>2.4</u>	<u>19.3</u>	<u>42.1</u>	<u>22.6</u>	<u>44.5</u>
<i>Market value of listed investments</i>	<u>4.2</u>	<u>3.6</u>				
<i>Share of profits before taxation</i>						
United Kingdom	1.5	2.6	0.8	2.8	2.3	5.4
Overseas	—	—	3.2	4.4	3.2	4.4
Total	<u>1.5</u>	<u>2.6</u>	<u>4.0</u>	<u>7.2</u>	<u>5.5</u>	<u>9.8</u>
<i>Share of profits after taxation but before extraordinary items</i>	<u>1.0</u>	<u>0.4</u>	<u>2.0</u>	<u>3.4</u>	<u>3.0</u>	<u>3.8</u>
<i>Dividends and interest received from associated companies</i>	<u>0.1</u>	<u>0.1</u>	<u>0.7</u>	<u>3.1</u>	<u>0.8</u>	<u>3.2</u>
	Attributable value		Share of profits before taxation			
	1979	1978			1979	1978
<i>Summary</i>						
Pulp, lumber, paper and paper products	2.6	24.8			3.2	5.6
Publishing, printing, etc.	8.0	7.5			2.2	2.4
Property	12.0	12.2			0.1	—
Entertainment	—	—			—	1.8
Total	<u>22.6</u>	<u>44.5</u>			<u>5.5</u>	<u>9.8</u>

The principal associated companies are shown on page 48. The attributable results of Stanger pulp and paper mills to date of acquisition as a subsidiary and of the Joint Venture Companies to date of sale have been included in the share of profits before taxation shown above.

12 Other Investments

	1979	1978
Rhodesian subsidiaries not consolidated	—	7.0
Listed investments at cost	0.2	0.9
Unlisted investments at cost	5.6	6.0
Total	<u>5.8</u>	<u>13.9</u>
<i>Valuation</i>		
Listed investments, market value	0.6	1.3
Unlisted investments, directors' valuation	6.5	6.8

Notes on the Accounts

£ million

13 Goodwill

At 31 March 1978	173.4
Goodwill on major divestments <i>note 1</i>	(13.4)
Goodwill written off <i>note 5</i>	(7.1)
At 31 March 1979	<u>152.9</u>

14 Stocks

	1979	1978
Raw materials	76.4	97.0
Work in progress	19.7	21.5
Finished goods	103.4	138.8
Maintenance stocks	11.8	8.7
Total	<u>211.3</u>	<u>266.0</u>

15 Share Capital

	Authorised 1979	Issued and fully paid 1979	Issued and fully paid 1978
<i>Preference shares (cumulative) of £1 each</i>			
Redeemable at par at the option of the Company			
4½% (now 3.15% plus tax credit)	1.5	1.5	1.5
5½% (now 3.85% plus tax credit)	1.2	1.2	1.2
Irredeemable			
5% (now 3.50% plus tax credit)	0.3	0.3	0.3
7% (now 4.90% plus tax credit)	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>
	4.1	4.1	4.1
<i>Ordinary shares of £1 each</i>	111.7	111.7	111.7
<i>Unclassified shares of £1 each</i>	<u>19.2</u>		
Total	<u>135.0</u>	<u>115.8</u>	<u>115.8</u>

At 31 March 1979 certain directors and employees held options to subscribe for 1,536,946 ordinary shares at prices between 158p and 199p per share, exercisable in accordance with the terms of the 1973 Share Option Scheme, in general between 1977 and 1983. During the year options to subscribe for 85,251 ordinary shares at 199p each lapsed in accordance with the rules of the Scheme. No new options were granted.

16 Reserves

	Consolidated	Parent	Subsidiary companies	Associated companies
At 31 March 1978	100.3	33.3	73.0	(6.0)
Adjustment as a result of change in basis of accounting for deferred taxation	<u>64.6</u>		<u>64.6</u>	
Opening reserves restated	164.9	33.3	137.6	(6.0)
Disposal of associated companies	—	—	(2.4)	2.4
Profit for the year retained	24.0	19.6	2.2	2.2
Exchange differences	<u>(9.9)</u>	<u>(11.8)</u>	<u>3.8</u>	<u>(1.9)</u>
At 31 March 1979	<u>179.0</u>	<u>41.1</u>	<u>141.2</u>	<u>(3.3)</u>

Profit for the year dealt with in the accounts of the Parent Company was £28.7m (£32.7m) being profit after taxation and extraordinary items, but before dividends of £9.1m (£9.1m).

£ million

17 Outside Shareholders' Interests

This represents amounts due to minority shareholders in Reed's Subsidiary Companies.

	Profit and Loss Account		Balance Sheet	
	1979	1978	1979	1978
Minority shareholders in:				
Reed Nampak Ltd	2.1	5.1	—	18.3
Reed Paper Ltd	1.4	1.4	16.0	17.2
Other companies	0.9	1.3	4.6	14.8
Total	<u>4.4</u>	<u>7.8</u>	<u>20.6</u>	<u>50.3</u>

18 Deferred Taxation

In previous years, deferred taxation was provided for

- (a) depreciation claimed at a faster rate for tax purposes than that charged in the accounts and other timing differences
- (b) stock increase relief.

These provisions have been released in the current year to reflect the accounting policy set out on page 28. Deferred taxation relief shown in the accounts now consists of:

	1979	1978
Advance corporation tax recoverable	2.8	8.1
Excess of tax relief due over tax payable in respect of timing differences which will reverse in the foreseeable future	<u>7.2</u>	<u>0.2</u>
	<u>10.0</u>	<u>8.3</u>

If provision had been made for all timing differences further liability as follows would have appeared in the accounts:

Depreciation claimed at a faster rate for tax purposes than that charged in the accounts	55.4	49.0
Stock increase relief	22.8	21.1
Other timing differences (net)	<u>(5.3)</u>	<u>(5.5)</u>
Total	<u>72.9</u>	<u>64.6</u>

Notes on the Accounts

£ million

19 Loan Capital and Cash Deposits

Years When Repayable	Currency Analysis of Consolidated Long Term Debt						Currency Analysis of Cash Deposits
	0-5	6-10	11-15	16-20	21+	Total	
£ Sterling	11	14	17	14	29	85	(34)
D Florins	27	34	10	—	—	71	(28)*
US \$	22	22	—	—	1	45	(2)
Can \$	13	12	10	9	—	44	(21)
D Marks	13	10	—	—	—	23	(9)
Others	34	9	—	—	—	43	(18)
Total	<u>120</u>	<u>101</u>	<u>37</u>	<u>23</u>	<u>30</u>	<u>311</u>	<u>(112)</u>
(1978)	<u>111</u>	<u>144</u>	<u>61</u>	<u>29</u>	<u>32</u>	<u>377</u>	<u>(69)</u>

Loans repayable within 1 year mainly by instalments £15.9m (£18.0m) Parent Company £5.8m (£7.6m).

*Includes £23m (Australian \$43m converted to Dutch Florins in April 1979).

	Consolidated		Parent	
	1979	1978	1979	1978
Loans wholly repayable within 5 years	<u>24.6</u>	<u>30.1</u>	<u>9.5</u>	<u>10.0</u>
Bank loans wholly repayable within 5 years	<u>5.9</u>	<u>20.9</u>	<u>—</u>	<u>10.0</u>
Bank loans not wholly repayable within 5 years	<u>24.0</u>	<u>48.5</u>	<u>—</u>	<u>14.4</u>

The average rate of interest on all loans is 9.0% (9.1%)

Parent Company – unsecured		1979	1978	Parent Company – secured		1979	1978
6% Swiss Franc Loan 1973/88				Miscellaneous – Sterling		<u>25.8</u>	<u>27.1</u>
(Net of Sw Frs 80m (£22.7m) deposited for redemption in July 1979)		—	23.1	Total Parent Company		<u>166.7</u>	<u>226.4</u>
6¾% Luxembourg Franc Bonds 1987		10.5	13.7	Subsidiary companies – unsecured			
7¼% D. Mark Bearer Bonds due 1979/88		23.3	26.6	Miscellaneous (Sterling – £11.9m)		<u>62.9</u>	<u>56.7</u>
7½% Sterling Unsecured Loan Stock 1996/2001		13.3	13.7	Subsidiary companies – secured			
8¼% Dutch Florin Loan 1978/92		11.2	12.5	11½% C\$ Debentures 1986/96		13.6	16.2
9% US Dollar Bonds 1987		19.4	21.4	11½% C\$ Debentures 1981/95		20.7	23.8
10% Sterling Unsecured Loan Stock 2004/09		13.0	13.0	Floating Rate US\$ Debenture 1980/84		12.3	13.0
11¼% Dutch Florin Bonds 1980/89		32.6	33.8	Miscellaneous (Sterling – £14.9m)		<u>34.5</u>	<u>40.6</u>
US Dollar Bank Loan 1979/82		—	10.0			<u>81.1</u>	<u>93.6</u>
D. Mark Bank Loans 1977/85				Total subsidiary companies		<u>144.0</u>	<u>150.3</u>
(Net of D. Marks 54m (£13.9m) deposited for redemption)		—	14.4	Total Parent Company		<u>166.7</u>	<u>226.4</u>
Miscellaneous (Sterling – £6.1m)		<u>17.6</u>	<u>17.1</u>	Consolidated		<u>310.7</u>	<u>376.7</u>
Total		<u>140.9</u>	<u>199.3</u>				

Notes on the Accounts

£

20 Directors' Emoluments	1979	1978
<i>Payments to former directors of the Parent Company</i>		
Pensions to, and pension contributions for, former directors	27,108	24,612
Payments on retirement to executive directors	—	<u>15,000</u>
<i>Payments to the directors of the Parent Company</i>		
Fees	16,500	16,945
Other emoluments	<u>610,106</u>	<u>588,175</u>

The number of directors in each range of emoluments (excluding pension contributions) was as follows:

	Tax	Take home pay				
The Chairman, the highest paid director	<u>43,347</u>	<u>19,155</u>	<u>62,502</u>		<u>57,046</u>	
Other directors	Tax	Take home pay	Number		Number	
			UK	Overseas	UK	Overseas
2,501— 5,000	1,017	3,983	—	—	2	—
5,001— 7,500	1,842	5,658	2	—	—	—
10,001—12,500	3,812	8,688	—	—	—	1
15,001—17,500	6,802	10,698	1	—	1	—
22,501—25,000	12,279	12,721	—	1	—	—
32,501—35,000	20,520	14,480	—	—	2	—
35,001—37,500	22,595	14,905	—	—	1	—
37,501—40,000	24,670	15,330	2	—	1	—
40,001—42,500	26,745	15,755	—	—	—	1
42,501—45,000	28,820	16,180	1	—	1	—
45,001—47,500	30,895	16,605	1	—	1	—
47,501—50,000	32,970	17,030	1	—	—	—
52,501—55,000	37,120	17,880	1	—	—	—

21 Emoluments of Employees in UK (excluding pension contributions)

	Tax	Take home pay	1979	1978
			Number	Number
10,001—12,500	3,812	8,688	1,260	350
12,501—15,000	5,214	9,786	254	104
15,001—17,500	6,802	10,698	127	40
17,501—20,000	8,540	11,460	61	12
20,001—22,500	10,404	12,096	21	21
22,501—25,000	12,279	12,721	8	2
25,001—27,500	14,295	13,205	11	4
27,501—30,000	16,370	13,630	4	1
30,001—32,500	18,445	14,055	3	1
32,501—35,000	20,520	14,480	1	—

The figures for tax and take home pay shown above and in note 20 are calculated on a salary at the top end of each range for a married man in the UK with two children under 11, and no other income or allowances.

Notes on the Accounts

£ million

22 Contingent Liabilities	Consolidated	Parent
<i>Guarantees have been given in respect of</i>		
Borrowings of subsidiary companies	—	46.1
Borrowings of associated companies (including £0.5m in respect of a former associated company)	6.3	6.0

Following the sale of the Company's interests in Prince George Pulp & Paper Ltd and Intercontinental Pulp Company Ltd ("the Joint Venture Companies") the Company and a subsidiary remain contingently liable to make payments due on the first mortgage bonds of the Joint Venture Companies. The Company and the subsidiary concerned have been indemnified by the purchaser against this liability. On 31 March 1979 the principal amounts outstanding of the first mortgage bonds of the Joint Venture Companies amounted to £22.1m.

Under the terms of the agreement whereby Stanger Pulp and Paper (Pty) Ltd ("Stanger") became a wholly owned subsidiary, the Company has indemnified a former shareholder of Stanger against any liability which it may have on account of joint and several guarantees entered into in respect of certain indebtedness of Stanger. At 31 March 1979 such indebtedness amounted to £14.8m.

A former director has commenced proceedings in Canada against the Company and certain of its Canadian Subsidiaries, claiming damages for breach of contract and wrongful dismissal. The sum claimed amounts to C\$1,100,000 but on the basis of legal advice the Company is of the opinion that it has a good defence to the claim and has accordingly denied all liability. The Company is counter-claiming for damages in excess of C\$1,200,000 which includes claims in respect of the outstanding balance of two loans now aggregating C\$173,889.

Proceedings have been commenced in the United States of America against the Company and two of its subsidiaries claiming US \$5,000,000. On the basis of legal advice, the Company is of the opinion that it and its subsidiaries have a good defence and they have accordingly denied liability.

Actions instituted in 1970, against certain Canadian Subsidiaries, for alleged pollution of certain lakes and rivers in N.W. Ontario in the aggregate amount of approximately £868,000 (C\$2,100,000) are being contested in the courts. It is not possible to estimate the ultimate liability, if any, arising out of these proceedings.

During 1978, a writ of summons was issued against certain Canadian Subsidiaries on behalf of numerous plaintiffs claiming damages resulting from alleged pollution in Northwestern Ontario. The plaintiffs have not yet filed a statement of claim, and it is not possible to estimate the ultimate liability, if any, which may arise should the matter proceed.

A Canadian Subsidiary was advised by the National Harbours Board in 1973 that it would be responsible for dredging costs of the St. Charles River estuary in the amount of approximately £1,448,000 (C\$3,500,000) because of past discharge of refuse and waste. The subsidiary company does not agree that it is responsible for any part of these costs.

The disposal of certain properties to MEPC-Reed Properties Ltd (MEPC-Reed) in 1972 gave rise to a surplus on which it is expected that tax will be quantified and become payable only if MEPC-Reed disposes of the properties. The Company has undertaken to indemnify MEPC-Reed against such liability if and when it arises. The maximum liability under current legislation is estimated to be £7.6m.

Directors' Interests in Share and Loan Capital

The interests of the Directors and of their families in the share and loan capital of the Company are set out below.
No notifiable interests existed in respect of subsidiaries.

	Ordinary Shares		10% Unsecured Loan Stock 2004/09		Ordinary Shares under option	
	31 March 1979	1 April 1978	31 March 1979	1 April 1978	31 March 1979	1 April 1978
A A Jarratt	1,200	1,200			65,251	65,251
E S Birk	16,502	16,502				
	2,512*	2,512*	£112*	£112*		
L A Carpenter	177	177	£33	£33	18,004	18,004
M K Collins	2,774	2,774			33,127	33,127
J D Cormie	888*	888*			93,714	93,714
J H Harvey-Jones	—	—				
J H Macdonald	240	240				
M C Thomas	—	—			16,945	16,945
D T Wilkins	—	—			19,063	19,063
GSG Witherington	3,000	3,000			55,212	55,212
	2,160*	32,160*				

*Indicates other than beneficial interest.

During the period from 31 March 1979 to 4 June 1979 there was no change in the interests set out in the above table.

Quarterly Results

£ million

	Sales to third parties		Operating profit		Profit attributable to shareholders		Earnings per share	
	1979	1978	1979	1978	1979	1978	1979	1978
First quarter	397.9	394.5	30.2	30.2	9.9	7.1	8.8p	6.3p
Second quarter	426.3	405.2	26.2*	28.8	7.6	6.7	6.8p	5.9p
Third quarter	404.7	407.6	30.7	27.4	10.6	4.6	9.4p	4.1p
Fourth quarter	382.0	415.9	25.2	30.0	14.6	9.5	13.0p	8.5p
Total for the year	<u>1,610.9</u>	<u>1,623.2</u>	<u>112.3</u>	<u>116.4</u>	<u>42.7</u>	<u>27.9</u>	<u>38.0p</u>	<u>24.8p</u>

1978 restated to reflect the change in basis for providing for deferred taxation.

*Includes a provision of £5.2m which was subsequently reclassified as an extraordinary item in the fourth quarter.

Reed International Limited

Reed Group

PAPER AND BOARD MILLS	Reed Paper and Board – 9 mills and 1 converting factory Reed Corrugated Cases Nederland, Paper Division – 1 mill in Holland	Reed Deeron – 2 mills and 2 flexible packaging plants in USA, 1 mill in Canada
PAPER, BOARDS AND PACKAGING MERCHANTING	Spicer-Cowan – 18 branches R H Robinson	SM Paper Spicer-ESM – Eire
WASTE PAPER	J & J Maybank – 12 UK branches and 3 in Europe	
ENGINEERING AND DEVELOPMENT	Reed Engineering & Development Services	Sanderson Watts
TRANSPORT AND SHIPPING	Reed Transport	Pioneer Shipping & Forwarding
CORRUGATED CASES	Reed Corrugated Cases – 14 factories	Reed Corrugated Cases Nederland, Packaging Division – 5 factories in Holland
CARTONS	Field – 4 factories	
PAPER SACKS, PLASTIC PACKAGING AND MACHINERY	Reed Medway Sacks Reed Plastic Packaging	Reed Medway Packaging Systems Dekker Holland
STATIONERY, OFFICE SUPPLIES AND EQUIPMENT	Spicers Spicer Hallfield	Alacra Capital Spicers Eire (50%)

The Wall Paper Manufacturers

DECORATIVE PRODUCTS Paint	Crown – 4 factories in UK – 4 factories overseas	General – 1 factory Canada
Wallcoverings	Crown – 6 mills in UK – 3 mills overseas Sanderson – 2 mills in UK Birge – 1 mill USA	Sunworthy – 1 mill Canada Reed Wallcoverings – distribution centres in USA
Textiles	Sanderson – 3 mills	Bradfield Brett
Knitting, conversion and fashion	Bradfield Brett – 2 mills	
Carpets	Sanderson – 2 mills	
Do-it-yourself	Polycell – 1 factory in UK – 6 units overseas	
Brushes	Briton Chadwick – 2 factories	
TECHNICAL Printing inks, adhesives, printing rollers, pattern books, engineering	Texales – 3 factories	

Reed Building Products

BATHROOM PRODUCTS Ceramic sanitaryware, taps and shower cubicles	Twyfords	
Ceramic sanitaryware, tiles and refractories	Koninklijke Sphinx – Holland, Belgium, France, Germany	
Baths	Edward Curran	
Shower fittings and mixing valves	Walker Croswell – UK, France, Germany, Canada, South Africa	
PLASTIC PRODUCTS Pipes and fittings	Key Terrain	
Trade mouldings	L & P Plastics	
Cladding	Celuforn	
Toolmaking	Westwood Tools	

Divisional Operations

International Publishing Corporation		
MAGAZINES	IPC Magazines – 72 Magazines, 6 Library Series, 62 Juvenile Annuals	Mail Sale Editorial Offers
BUSINESS PUBLICATIONS	IPC Business Press – 111 Business and Technical Journals, Directories and Travel Guides, Exhibitions.	
BOOKS	Hamlyn Publishing Group – Adult and Children's Books, Paperbacks, Cookery Cards and Other Mail Order Clubs.	Butterworth & Co (Publishers) – UK, Australia, Canada, New Zealand, South Africa and USA. Legal, Medical, Scientific and Technical Books.
PRINTING	Odhams (Watford), Index Printers, Century Litho Plate, Chapel River Press, James Cond Printers,	Thomson Photo-Litho, Wardland, Contract Composing, R. J. Acford, Fleetway Printers, QB (50%).
OUTDOOR ADVERTISING	London and Provincial Poster Group (48%)	
OVERSEAS COMPANIES	International Juvenile Publications Holland (50%) Kauka Verlag Germany (50%) Compagnie Europeene de Publication France (21%) IPC Business Press (Australia) Pty.	IPC Business Press USA International Computaprint Inc. USA Cahners Publishing Company USA A & W Publishers Inc. USA

Mirror Group Newspapers		
DAILY NEWSPAPERS	Daily Mirror Scottish Daily Record	Sporting Life
SUNDAY NEWSPAPERS	Sunday People Sunday Mirror	Sunday Mail Sunday Independent
WEEKLY PUBLICATIONS	Reveille	Nine weekly newspapers
BOOKS, ETC.	Mirror Books	Syndication International (jointly with IPC)
DISTRIBUTION	Fleet Deliveries	MirrorAir

Canada		
REED PAPER LTD. PAPER AND BOARD Newsprint, paperboard and sulphite pulp	Quebec Mill Division	
Kraft pulp, kraft and fine paper	Dryden Mill Division	
Lignosulphonate chemicals, chlor-alkalis and turpentine pigments	Chemicals Division	
PACKAGING Flexible packaging	Winnipeg and Roseville Minnisota USA	

South Africa		
PAPER Merchanting	Spicers – 5 branches	
Conversion	Reed Stationery – 7 factories – 10 branches	

This chart is a general indication of the divisional operations of Reed International, its principal subsidiaries and also associated companies, their products and services. It does not constitute part of the Report and Accounts proper and includes changes which have taken place since 31 March 1979, as a consequence of which it is not identical with the information on page 48.

Principal Subsidiary and Associated Companies

31 March 1979

Subsidiary Companies

- *† Reed Group Ltd
- * Reed Paper & Board (UK) Ltd
- * Reed Corrugated Cases Ltd
- Field, Sons & Co. Ltd
- † Wall Paper Manufacturers Ltd
- Crown Decorative Products Ltd
- * Polycell Products Ltd
- † Reed Building Products Ltd
- † Reed Publishing Holdings Ltd (Preference shares held by outside interests)
- International Publishing Corporation Ltd
- IPC Business Press Ltd
- IPC Magazines Ltd
- Butterworth & Co. (Publishers) Ltd
- Hamlyn Publishing Group Ltd
- Mirror Group Newspapers Ltd
- *● Reed Paper Ltd 99% *Canada*
- Reed Holdings Inc *USA*

Associated Companies

- * Compagnie Europeenne de Publication 22% *France*
- * Tri-Wall Containers (Europa) BV 49% *Holland*
- * Industrial & Trade Fairs Holdings Ltd 40%
- * London & Provincial Poster Group Ltd (listed) 48%
- * Kings Reach Investments Ltd 39%
- * MEPC-Reed Properties Ltd 49%
- * Principal Subsidiaries and Associates not audited by Price Waterhouse & Co. The share of group turnover, profit after taxation and net assets not audited by Price Waterhouse & Co. at 31 March 1979 was approximately 42%, 65% and 39% respectively.
- † Direct subsidiary of the Parent Company.
- Redeemable Convertible Voting Preferred Shares of Reed Paper Ltd held by outside interests. On full conversion of these shares the equity interest in Reed Paper Ltd and its subsidiaries would be reduced to 86%.

All registered and operating in England unless otherwise stated.

All the equity is held unless otherwise stated; in these cases the ultimate percentage interest held is shown.

